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PUBLIC ACCOUNTS COMMITTEE

1957-58

(SECOND LOK SABHA)

Seventh Report

(Appropriation Accounts (Civil) 1953-54 and 1954-55
and Audit Report (Civil) 1956 Part I)

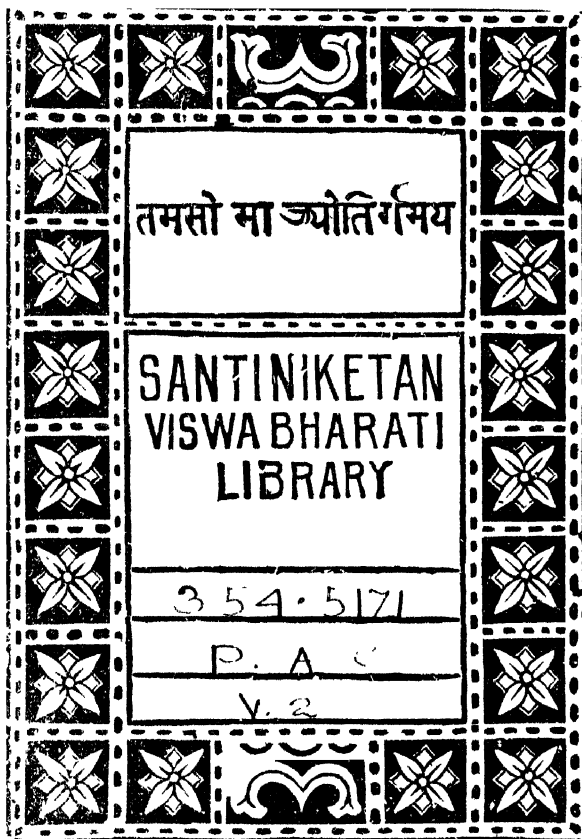
VOLUME II—APPENDICES



**LOK SABHA SECRETARIAT
NEW DELHI**

June, 1958

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APPENDICES

APPENDIX I

Statement showing action taken or proposed to be taken on the Outstanding Recommendations of the Public Accounts Committee Accounts (Civil)

S. No. Para and the Report	Recommendations	Action taken or proposed to be taken	Remarks	
1	2	3	4	
			5	
MINISTRY OF COMMERCE AND INDUSTRY				
1	70 XV The Committee feel that it is high time that the Accounts of the Old State Trading Schemes are wound up by taking appropriate action towards clearing the outstanding stocks.	1. <i>Scheme for the Purchase and Distribution of Cloth</i> : The matter is being finalised in consultation with the Ministry of Finance (I & C Division)	See para 35 of the Report.	
		<i>Japanese Cloth</i> : The matter is under active consideration in consultation with the Ministry of Finance (I & C Division)		
		<i>Imported Silk and Yarn (Japan)</i> The matter is being pursued with the Director of Supplies, New Delhi, in the organisation of the D.G.S. & D.		
		<i>Supply of Cloth and Yarn to Pakistan</i> : The proper head of account under which the profits are to be adjusted and the question whether the scheme is independent		

of the major scheme and can be closed without reference to the profit/loss of the whole scheme "Purchase and Distribution of Cloth" is under consideration with the Ministry of Finance and the Deputy A.G., Commerce, Steel and Mines, New Delhi.

2. *Purchase of Paper* : Stocks have been cleared and action has been taken to finalise the transactions.

3. *Cost of consumer goods imported on Government account* : Efforts are being made to finalise the transactions.

4. *Purchase of Woollen goods* : Same remarks as for 3.

2 71
XV The Committee are not convinced by the reason adduced for the failure to dispose of 136 tons of paper which is lying in stock since a long time.

3 81
XV In the case referred to in para 5(a) (i) of the Audit Report (Civil) 1952—Part I, there was failure to scrutinise the basis on which the lump sum contract was placed. The Committee had previously expressed their disapproval of lump sum contracts and find no reason to make an exception in respect of the present instance.

4 18
XVI On the basis of the information furnished to them, the Committee find themselves unable to accept the claim of Government that the supply of imported yarn to the mills and handloom weavers at a lower rate had brought down the price of yarn. In the opinion of the Committee, the loss of Rs. 2.14 lakhs which the Government incurred in disposing of the remainder of the second consignment of 6 lakh lbs. of yarn would have been avoided if moderation had been used in the grant of licence for the import of yarn

A note has been received (Appendix VII). See para 36 of the Report.

A note has been received (Appendix LXXIV). No comments.

A note has been received (Appendix LXXV). To be considered by the Committee.

on private account. In the circumstances a liberal grant of licences was not called for particularly when Government had with them a little over 3 lakh lbs. of yarn. The Committee see no reason why Government did not consider imposing certain restrictions on the import quota on private account till stocks lying with them were cleared without loss to Government.

19
XVI

In the opinion of the Committee, Government had been rushed into this scheme before they could devise the necessary machinery to ensure the avowed object of this scheme. The Committee feel that when it came to the notice of Government that the allottees did not abide by the obligation placed on them, Government should have considered the question of recovering from them the difference between the market price and the concessional price of the yarn.

The Committee desire that the case should be reviewed in the light of the above observations and a detailed note submitted to them.

27
XVI

The Committee are at a loss to understand why this question of implementing the recommendation of the P.A.C. should be linked up with those of the Trade Marks Enquiry Committee, particularly when the latter Committee (According to the Ministry themselves) had not at all touched upon this aspect in its Report.

A note has been received (Appendix LXXVI). No comments.

28
XVI

The Committee desire that the accounts of this old scheme should be closed without further delay.

A note has been received (Appendix VIII). See para 37 of the Report.

107
XVI

The Committee suggest that the Ministry of Railways and other Government Departments should be approached for manufacture orders which the Nahar Foundry could execute. With the prospect of cheap power becoming available in the near future from Bhakra Nangal, Government may take up the question of diversification of its production. For this purpose, the Committee would suggest that Government should before long appoint a small Committee of experts to survey its manufacturing capacity as well as the possibility of modernising it.

A note has been received (Appendix IX). See para 38 of the Report.

A note has been received (Appendix LXXV). To be considered by the Committee.

1	2	3	4	5
8	108 XVI	The Committee see no strong justification for the retention of such a large complement of office staff in any circumstances and especially so when the Foundry was running at a continued loss and there was not much work to keep it fully occupied.	A note has been received. (Appendix IX)	See para 38 of the Report.
9	109 XVI	The Committee are anxious that the activities of the National Instrument Factory should be switched over from repair and maintenance to that of a manufacturing unit. Proper cost accounting to which should be introduced and balance sheet and profit and loss accounts prepared just as is being done in the case of other Government commercial undertakings. The Committee hope that it should be possible to fix a limit for acquiring stocks over and above those provided for by the Government in the demands of the National Instruments Factory in the light of the first phase of the reorganisation scheme has been completed. Further, they also desire that due proportion between the slow moving and non-slow moving stores held by the Factory should also be maintained and all possible care and prudence exercised to ensure that the items of non-moving and slow-moving stores were indented not in excess of requirements which result not only in the locking up of public money but also possible deterioration owing to the efflux of time.	This matter is still under consideration and the relevant file is with Audit at present.	See para 109 of the Report.
10	110 XVI	The Committee suggest that Government might explore the possibility of setting up an optical glass factory either as an adjunct to this Factory or as an independent undertaking.	A note has been received (Appendix LXXVII)	To be considered by the Committee.
		The Committee hope that with the statistical data in their possession, the Government will be in a position to formulate a co-ordinated programme for the production by the private and public sectors of the various types of machine tools, etc.		

- 11
XXVI
The Committee would suggest that a proper cost-accounting system should be introduced quickly to enable Government to assess the economics of the Penicillin Factory, Pimpri. They trust that while calculating the overall cost per unit of penicillin produced at the Factory, the actual cost of the Factory including the expenditure incurred on the construction of the housing colony, research work etc. would be taken into account.
- 12
XXIII
The Committee would like to be apprised of the special reasons for buying the Director-General, India, Store Department in the case relating to the uneconomic purchase of printing machines. They feel that disciplinary action should be initiated even in cases of gross negligence.
- 13
XXIII
The Committee think that the proviso under clause 20B(ii) of the Cotton Control Textiles Order, 1948 contemplated a general permission to all producers and not a special case. They shared the doubts of their predecessor Committee and desired that a reference should be made to the Solicitor General on this point. The Committee would like to be apprised of the result in due course.
- 14
XXIII
The Committee note that according to the Solicitor General, Government had no strong grounds to take up the matter to a court of law. Nevertheless, they would like to invite the attention of Government to the following passage in the learned Counsel's opinion :
- 15
XXIII
"It is true that by the use of American Cotton of high counts for export purposes the Mills may have made very considerable profit and if the matter is looked at merely from moral grounds there would be a good deal to be said against the Mills, particularly when Mr. (of that Mill)... had suggested that there was no question of loss to Government or profit to the Mills."
- 16
XXIII
A note has been received from the late Ministry of Production (Appendix LXXVIII)
- 17
XXIII
A note has been received (Appendix LXXIX). To be considered by the Committee.
- 18
XXIII
Statement of the case along with the opinion of the Attorney General has been received (Appendix LXXX).
- 19
XXIII
Statement of the case along with the opinion of the Attorney General has been received (Appendix LXXX).

In the Committee's opinion, these observations are significant. They would therefore urge the Ministry to pursue this matter further with the Mill which by taking unfair advantage of the subsidy scheme had made considerable profits which though not legally refundable were morally unjust. It was in fact to safeguard the interest of the Public Exchequer in such cases that the P.A.C. had recommended in para 90 of the 15th Report that suitable legislation empowering Government to review concluded contracts to effect recovery of demonstrably excessive or unconscionable payments by Government. The Committee regret to observe that no action had been taken so far on this recommendation.

The Committee do not see why the question of taking departmental action against the other person involved should be linked up with the fate of the appeal by the ex-clerk pending in the Court. They invite attention to para 13 of their Thirteenth Report in this connection and would urge that departmental action should be taken against the other persons and the supervisory staff without further delay.

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XXIII

The records are in judicial custody. For that reason there has been no progress in of the Report. the case.

See paras 42 and 43 of the Report.

MINISTRY OF EDUCATION AND SCIENTIFIC RESEARCH

(i) There was no ostensible justification for the Indian High Commission, London in retaining the old furniture for use in the new hostel and that they should not have continued to incur avoidable expenditure on storage for such a long period as 40 months merely on an expectation which did not materialise eventually.

16.

The Indian High Commission, London, has been requested to see that in future expeditious action is taken in such matters to ensure that avoidable expenditure on storage is not incurred for a long time on mere expectation.

No comments.

(ii) The Committee do not understand why the Ministry did not move much earlier in the matter and call for details of the claim of the London University, when the Audit Report in question had been presented to Parliament on the 19th May, 1954 and the Audit Para in question must have been sent to the Ministry even earlier before the Report was printed. The Ministry should have initiated

In view of the Solicitor General's opinion it To be considered b was not considered worthwhile to pursue the the Committee. matter further with the Mills.

A note has been received (Appendix LXXXI). No comments.

—A—

action immediately and made available the relevant information to the Committee at the time they took up examination of the case. It is up to the Ministers to initiate prompt action in all matters brought before them by the Audit and not to postpone action until the Audit has come up for consideration by the Committee.

Another point that arose in this case was whether reimbursement to the Government of the cost of the charges paid on account of local rates for the period of the lease of the premises of the Board is due from the U.K. Ministry of Works, according to the law then in operation, that country. The Committee held that no reference on this point was made to the Ministry of Education by the Indian Financial Commission, London. The Committee should like to know, in due course, if it is to be asked to pay for the lease and the interest of the claim for the reimbursement being undertaken by the U.K. Government.

Now that the Government have decided to set up the University Grants Commission, which will co-ordinate the financial needs of Universities and allocate and disburse grants to them and that a Bill on the subject has already been introduced in Lok Sabha, the Committee leave the question of payment of grants to Universities in advance of actual requirements for consideration by that body.

Early opportunity should be taken to amend the Vwa Bharati Act so as to bring it in line with the other University Acts, so far as audit by the C.A.A.G. is concerned and also to make a statutory provision for submitting the Audit Reports on all the Central Universities to Parliament.

DEPARTMENT OF SCIENTIFIC RESEARCH

The Committee hold the view that, as a matter of general principle, where it is desired that continuing functions involving substantial expenditures should be exercised by autonomous bodies like the CSIR the powers and duties to be exercised should be defined by a specific statute. The Committee trust that Govt. would take the first convenient opportunity to embody the functions of the CSIR in a statute.

Notes: The above Grants Commission is being introduced accordingly.

The views of the C.A.A.G. have been noted. No comments. and effect will be given to them when the University Act is next amended.

A note has been received (Appendix X). See paras 52 to 55 of the Report.

MINISTRY OF EXTERNAL AFFAIRS

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XV

(i) The keeping of any transaction in Suspense Account for practically one decade, as has been done in this case relating to the supply of agricultural implements to the Afghanistan Government, seems to be highly irregular. The Committee would like to know the progress made in the settlement of this long outstanding item.

A note has been received (Appendix LXX). See para 429 of the Report.

(ii) A special scrutiny of the transactions under 'Suspense' may be conducted by Government with a view to seeing that no such items are lying uncleared for such long periods.

A note has been received (Appendix LXX).

See para 429 of the Report.

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59
XV

The Committee take a serious view of officers producing false certificates for the drawal of Exchange Compensation Allowance. Adequate action should be taken against the officials who had indulged in illegal currency operations while drawing Exchange Compensation Allowance in the Missions abroad.

A note has been received (Appendix LXXI).

See para 430 of the Report.

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XV

As one of the measures to prevent the recurrence of cases of irregular currency operations in future the Committee would suggest that the Foreign Allowance of officers serving abroad should be fixed in the currency of the countries in which they are serving and Exchange Compensation Allowance abolished.

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XVI

The Committee regret to observe that although more than eight months have elapsed, the Ministry have not yet furnished the information. The Committee, therefore, have no alternative but to leave this matter for future consideration.

A note has been received (Appendix XI). See paras 70 & 73 of the Report.

See paras 74 and 75 of the Report.

A note has been received (Appendix XII).

The Committee would like that a copy of the Report of the Foreign Service Inspectorate, together with a statement showing action taken by Government on their report, be furnished to them in due course.

See para 76 of the Report.

The case has not been finalised as yet and a note on the subject will follow.

The Committee desire to be informed in due course of the actual financial powers delegated to the High Commissioner in U.K., and how these compared with the powers enjoyed by the Heads of Missions in U.S.A., Russia and other countries.

See para 438 of the Report.

A note has been received (Appendix LXXII).

The Committee deplore the way in which the case of renting a building in a foreign country had been dealt with by both the High Commissioner and the Government. Even if the matter was considered urgent for political reasons, when the foreign Government recommended the leasing of a building for housing the Embassy, the matter should have been examined afresh as soon as negotiations in respect of that building fell through. The action of the High Commissioner in leasing the second building which saddled Government with a liability for 15 years without making sure that the necessary personnel for the Embassy could be found within a reasonable time lacked justification. The representative of the Ministry could not give any information as to whether his Financial Adviser was consulted by the High Commissioner in this matter.

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In the opinion of the Committee, the Ministry are not altogether blameless in the matter. They could not understand why the Ministry did not hasten to select the persons for the Embassy after having issued the order for the lease of a building in a foreign country at a substantial cost. The plea of financial stringency was hardly convincing when the question of opening an Embassy in that country had become urgent for political reasons. The Committee are disappointed at the fact that even by the end of 1956 (6 years since the building was leased) the Embassy had not started functioning. They, therefore, desire that the Ministry should now seriously examine the question of surrendering the building by compromising with the lessor in case there was no prospect of finding the necessary personnel and establishing the Embassy in the near future.

See para 80 of the Report.

Noted. Necessary information has been furnished to the Ministry in order that the Officer was employed after relinquishing charge of his post in the Ministry. The Ministries of Law, Immigration and Power, S.M.S.P., Home Affairs, Food and Agriculture, W.H.S.S., Health, Labour, and Department of Atomic Energy, the President's and P.M.'s Secretariats have noted it.

Despite financial irregularities committed by the Officer in respect of which the Ministry had not taken disciplinary action necessary although when viewed as a whole the conduct of the officer appeared improper, the Ministry while replying to a reference from another Ministry proposing to re-employ him did not communicate those facts to that Ministry. The Committee feel that in the larger interest of Government as a whole, one Ministry should communicate irregularities on the part of an officer intended to be re-employed by another Ministry to that other Ministry for their benefit. At the instance of the Committee the representative of the External Affairs Ministry has now agreed to communicate these irregularities to the other Ministry which had meanwhile employed him.

The Committee had objections in the past to a number of cases where infructuous expenditure had been incurred by Missions abroad, either because the Officers for whom the residences were leased could not be posted or the houses were later declared unsuitable for their occupation. They consider that the system of securing and paying for accommodation overseas is capable of improvement and would urge the Foreign Service Inspectorate to examine this from two aspects, *viz.*, to check extravagance and to stop infructuous expenditure.

See para 81 of the Report.

Noted. The Foreign Service Inspectorate are at present engaged in relaxing the foreign allowances of the Officers and staff attached to the Missions and Posts abroad. Even this work has been delayed as owing to lack of suitable personnel, Govt. had to reduce the number of inspectors from two to one. The activities of this Ministry have increased and it is becoming more and more difficult to find officers to meet the requirements. Every effort is, however, being made to find ways and means of strengthening the Inspectorate. Once the strength of the Inspectorate is suitably increased, the additional work which the Committee wished the Inspectorate to do, will be undertaken.

Noted.

See paras 82 to 84 of the Report.

The Committee find it difficult to share the satisfaction of the Ministry about the transaction relating to the purchase of chancery building merely because the price paid for the property was less than the sanctioned sum.

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XXIII

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XXIII

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On the other hand, they are far from happy about the spending of Rs. 1·3 lakhs without that accountability which is the basic principle of Govt. finance. Not only the purchase should be effected to the best advantages of the Govt. but it should also be ensured that it could not have been negotiated for a lesser amount. The Committee were not convinced of the necessity for a pre-arrangement with the vendors for a separate payment of £ 10,000 when the sale was effected by public auction through the court. In case such a pre-arrangement was considered inevitable, the details thereof should have been intimated to Government and their prior approval taken.

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XXIII

The Committee were given to understand that even at a very early stage of the negotiations for the purchase of this property, the architect had expressed doubts about constructing buildings on the vacant plot because of Municipal Laws prohibiting such constructions. The Committee cannot see any justification for proceeding with the negotiations in these circumstances. They doubt the wisdom of the action of the Finance Ministry in agreeing to a blanket sanction of Rs. 7½ lakhs, the details of which they were not aware of.

The Ministry of Finance (E) have it under examination.

See para 82 to 84 of the Report.

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MINISTRY OF FINANCE

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XV

It would not now be constitutionally in order to levy a cess on certain commodities like tea, coffee, salt, coal, cotton, rubber etc. under the provisions of the Acts constituting their Funds (most of which were passed before the commencement of the present Constitution) and constitute a separate fund from the proceeds thereof for an earmarked purpose, as under Article 266 of the Constitution all revenues received and all loans raised

A note has been received (Appendix XVI). See paras 96 to 98 of the Report.

by the Government of India and all moneys received by that Government in re-payment of loans shall form one Consolidated Fund entitled the 'Consolidated Fund of India'. It would be manifestly impossible for Parliament to exercise any close control over the administration of Public Finance, if the system of assigning particular receipts for specified purpose prevailed. Further, such earmarking would turn out to be bad budgeting as there would be no direct correlation between the amount of such taxes which are ultimately paid by the general consumers and the actual requirements for the development of the Industry concerned.

Government should take early steps to evolve in consultation with the Comptroller and Auditor-General a procedure under which expenditure from any such so called Cess Funds for the development of particular industries would be subject to direct vote of Parliament.

The Central Government should see that adequate arrangements are made by the States for repaying in time the huge sums of money advanced to them as loans by the Centre financing their developmental expenditure. The Committee would like to know, in due course, the concrete steps taken by the Ministry of Finance in this respect.

The Committee trust that the balance of the long outstanding debt amounting to Rs. 5 crores would be finally settled with the Burma Government during the course of 1955-56.

A Memorandum has been received (Appendix XVII). See paras 99 to 101 of the Report.

The position in respect of the outstanding debt of the Union of Burma to the Government of India is as under :—

Balance of debt due Rs. 20 crores (Out of the outstanding balance of Rs. 48 crores due to the undivided Government of India, Rs. 8 crores approximately were Pakistan's share, the balance being scaled down to Rs. 20 crores under the 1954 Agreement).

Deduct

(i) Amount to be adjusted (in the sale proceeds of rice) by way of rebate on

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Rs. 15.42 crores.

purchase price of rice.

(ii) Amount due to Burma in settlement of currency coinage and connected matters.

Rs. 2.54 crores.

$$\frac{\text{Rs. 17.96 crores.}}{\text{Rs. 17.96 crores.}}$$

Net balance (to be treated as aid to Burma) under the Colombo Plan.

Rs. 2.04 crores

The above figures have been accepted by the Government of the Union of Burma which finally settles this matter.

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XVI

The Committee would like to be assured that in computing 1. A note has since been sent to the Committee from which it would be clear that in computing the lump sum payment to U. K. consequent on the transfer to that Government of control, administration and payment of sterling pensions, only such pensions for which the liability devolved on India were taken into account and those, the liability for which was that of Pakistan, were excluded. As regards the recovery of past payments the Committee hope that Government would pursue the matter diligently and soon come to an agreement with Pakistan in regard to the settlement of this and of the other question of pre-partition debt.

See paras 103 to 106 of the Report .

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2. A note regarding recovery of amount outstanding against Pakistan has been received (Appendix XIX).

As regards the recovery of past payments from Pakistan the matter is still under consideration.

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XVI

The Committee see no justification for Government resuming the payment of this pension in October, 1952 after it had been discontinued for the very reason that it was not the liability of India but of Pakistan. They find it difficult

See paras 103 to 106 of the Report.

A note has been received (Appendix XVIII).

to be persuaded by the plea that non-payment of this pension would cause hardship to the officer.

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XVI

The Committee feel that even the revised sanction erred on the generous side; they could hardly see any justification for the grant of foreign and sumptuary allowances in this case while a number of other officers, who had been deputed under the Colombo Plan to foreign countries, were not sanctioned such allowances.

The Ministry have explained the position.

See paras 107 to 109 of the Report.

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XXIII

In the Committee's opinion, Section 7 of the Income-tax Act as it stands after amendment could not admit of the interpretation now sought to be placed thereon by Government whatever their intentions might have been at the time of amending the Act. They doubt whether the expression 'value of rent-free accommodation' used in the Act could be stretched to mean the value of the accommodation to the employee and as such was referable to the emoluments of the employee. In view of the difference of opinion that had arisen between the Comptroller and Auditor General and the Government, the Committee feel that the opinion of the Attorney General should have been sought in the matter as soon as it arose.

The opinion of the Attorney General along with the statement of case has been received (Appendices XX and XXI).

See paras 112 to 116 of the Report.

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XXIII

The Committee think that the views of the C.B.R. that the charges for water and electricity in respect of the Ministers' residences which were payable by Government to separate authorities like the Municipality and State Electricity Authority, should be regarded as additional emoluments of the persons and be taxed as such *et c.* the legal advice which was otherwise also a fit case for reference to the Attorney General for opinion. The Committee would also like to add that it would be a good practice in future to refer all similar cases, where the beneficiaries are members of the Government to the Attorney General for his opinion.

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From the information furnished to them, the Committee find that 189 cases have been disposed of till 30th November, 1956 of which 127 cases represented those completed by

A note has been received (Appendix XXII).

See para 117 of the Report.

the Investigation Commission. (The number of cases disposed of till 31st May, 1956 was 157 out of which 117 were cases completed by the Investigation Commission). In other words, the Board had been able to dispose of only 22 fresh cases during a period of 6 months. At this rate, the Committee do not know whether the expectation of the Secretary, Revenue Department for the clearance of all outstanding cases by March, 1958 would be fulfilled at all. Considering the chequered progress of this scheme and the number of hurdles it had to face every now and then the Committee would urge that the whole matter be examined afresh with a view to simplifying the process and speeding up the machinery for assessment and collection.

See paras 118 to 120 of the Report.

See para 391 of the Report.

A note has been received (Appendix XXIII).

A note has been received (Appendix LXVII).

The Committee consider that write-off of loans advanced on the authority of the Appropriation Act should be made with the approval of Parliament and would wish the Ministry of Finance to examine how such approval ought to be obtained.

The Committee could not appreciate the connection between the Sterling Balances Agreement of 1948 and the present deal of outright transfer of the pensionary liability to the U.K. Government. In their opinion, in computing the capitalised value of pensions now, the current rate of interest should have been the basis according to the normal practice. Absence of any specific mention of the rate of interest in the present agreement, cannot be taken to mean or imply that the earlier rate of 1 per cent. was indicated. The Committee desired the Secretary to send a note on this point elucidating the reasons that led the Government of India to accept the rate of one per cent. for computing the capitalised value of pensions.

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REHABILITATION FINANCE ADMINISTRATION

44	94 XV	<p>The delay in the disposal of loan applications in the Rehabilitation Finance Administration can be eliminated and much infructuous expenditure involved in the processing of applications also saved, if the applications are examined carefully in the Administration's Office immediately on their receipt to see whether they fulfil the prescribed conditions for the grant of loan, especially the condition as to the production of acceptable guarantors by the applicants. All these applications which do not satisfy these conditions need not be entertained. As a rule, no loan should be sanctioned unless an applicant has produced an acceptable guarantor nor should time be wasted in processing an application further.</p>	<p>A note has been received (Appendix XXV).</p>	<p>See paras 129 to 131 of the Report.</p>
		<p>The Committee regret that no concrete proposals for simplification of the procedure have been discussed by the Ministry of Finance and the Chief Administrator, Rehabilitation Finance Administration with the Comptroller and Auditor-General, although nine months have elapsed, as suggested by the Committee.</p>	<p>Do.</p>	<p>Do.</p>
45	95 XV	<p>The fact that against the amount of loans of Rs. 24 lakhs sanctioned in 1953, a sum of Rs. 14 lakhs had been provided for 'bad and doubtful debts' indicates that proper procedure had not been exercised in granting loans.</p>	<p>A note has been received (Appendix LXXXII).</p>	<p>See para 128 of the Report.</p>
46	96 XV	<p>Now that the Rehabilitation Finance Administration have acquired practical experience for about 7 years, it is high time that they evolved a realistic basis for estimating the 'bad and doubtful debts'.</p>	<p>A note has been received (Appendix LXXXIII).</p>	<p>No comments.</p>

all possible and timely steps have been taken to set off debts due to the Corporation against the compensation claims of the debtors.

See para 122 of the Report.

A note has been received (Appendix XXIV).

No comments.

A note has been received (Appendix LXXXIV).

INDUSTRIAL FINANCE CORPORATION

See para 140 of the Report.

A note has been received (Appendix XXVI)

The latest position may be stated.

Action is being taken and the Rules framed under Sec. 42 will be laid on the Table of the Lok Sabha and Rajya Sabha.

See para 141 of the Report

A note has been received (Appendix LXXXV.)

facility of management, the Corporation has been set up as a separate legal entity with certain legal powers, it should be permissible for the Corporation to disregard or flout the advice given by the Ministry of Commerce and Industry which is charged with the public responsibility for promoting the industrial development of the country. The notion that the Corporation's transaction can be managed solely according to ordinary practices of private banks cannot also be supported.

See para 142 of the Report.

A note has been received (Appendix XXVII).

The Committee regard the percentage of the establishment charges of the Corporation as compared to its working expenses (which was 15.69 for the year 1954) as "fairly high" and would like to know what steps the Corporation propose to take to bring them down.

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See para 143 of the Report.

Noted.

In view of the financial position of the Corporation, which necessitated the Government guarantee for the minimum return on capital to be received, it is clear that the launching of the project for the building of the Corporation offices, which resulted in an infructuous expenditure of about Rs. 2 lakhs was at the particular time both imprudent as well as imprudent.

109.
XV

See para 144 of the Report.

Noted.

The payment of fees amounting to Rs. 2,000 to an Advocate of the Bombay High Court for drawing a reply to Chapter VIII of the I.F.C. Enquiry Committee's Report regarding the Sodepur Glass Works which contained some criticism of the conduct of some officials of the Corporation and did not, otherwise, involve any legal issues is not a proper charge on the Corporation.

110.
XV

See paras 145 to 148 of the Report.

(i) Government have not so far intimated to the Committee the causes for the delay in making payment to the Sodepur Glass Works, as promised by the representatives of the Ministry of Finance at the sitting of the Committee held on the 11th February, 1955.

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(ii) The result of the endeavours made by the Negotiating Committee for the disposal of the assets of the Sodepur Glass Company to the best possible advantage of the Corporation has not yet been made known to the Committee. The Committee regret to note that the Negotiating Committee have not been able to give their final decision so far although 14 years have already elapsed and heavy losses have resulted on account of the locking up of the huge amount (of about Rs. 1 crore) advanced in this case, not to speak of the loss of interest (of about Rs. 50,000), etc.

* A note has been submitted to the Committee. See paras 145 to 148 of the Report.

MINISTRY OF FOOD AND AGRICULTURE

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XV

(i) The Committee agree with the conclusions arrived at by the Ministry of Finance in the case referred to in Para 8 (d) of the Audit Report (Civil), 1952-Part I relating to the loss on purchase of condensed milk that if an examination of the stuff on arrival had been done it was probable that as in the case of the first consignment, a portion of which was also found unfit for human consumption on account of deterioration, the Khadi Pratisthan would have agreed to take back the damaged portions of the second lot also.

The matter is under consideration.

Final report is awaited.

(ii) The Committee recommend that the Ministry of Finance should issue general instructions to all the Ministries that in case of all such contracts the Warranty Clause should invariably be provided in the Agreement, and in case of any failure on the part of the contracting party to supply the stuff according to the specification this clause should be invoked. In the present case, action should be taken against the Officers responsible in the Ministry of Food and Agriculture for not having provided the Warranty Clause in the Agreement and those responsible for not examining the second lot immediately on its receipt and sending it back to the firm.

The Ministry of Finance (E) have stated:

No comments.

"Instructions as desired by the Committee issued by the Ministry of Finance" (Appendix LXXXVI).

The case referred to in para 192 (a) of the Commercial Appendix to the Appropriation Accounts (Civil) 1950-51 indicates that indents were placed without an adequate knowledge of foundry practice and timely action was not taken to cancel the indents.

The purchase of foundry equipment was also gone into because of the remarks of the Estimates Committee in their Seventh Report to the effect that in their opinion the policy of the Food and Agriculture Ministry regarding the purchase of stores for the Central Tractor Organisation's requirements was unsatisfactory.

The latest position may be stated.

The position is that the foundry was intended to enable the C.T.O. to manufacture parts for some of its ploughs and other equipment. The supply position in the U.K. at that time was very difficult and it was considered necessary to manufacture these parts in India. The foundry was also to be used for manufacture of spare parts for Pashabhai Implements. Unfortunately there were many difficulties in the way of starting the foundry and by the time these difficulties were removed the need for manufacture of spares in India had largely disappeared. The steel and supply position in U.K. had improved and the necessary spare parts, it was found, could be imported cheaper than manufactured locally. The Pashabhai Implements as a whole had not come into use and the question of manufacturing spare parts for them did not arise. As intimated previously to the Public Accounts Committee it was also decided to reduce the number of tractors to be purchased from 375 to 240. It was, therefore, decided not to install this foundry. The foundry equipment not yet sold will be disposed of through the Disposal Committee set up by the Government of India for

purposes of prompt disposal of C.T.O. stores. Actually offers worth Rs. 81,048 have been received by the Disposal Committee.

Officers concerned with the transaction are no longer in service and it will serve no useful purpose to investigate further into the matter.

The Committee would like to know why purchases in excess of the annual requirements were made by the C.T.O. during the years 1951-52 and 1952-53 and the extent of such surplus purchases. The responsibility for these excessive purchases should be fixed and adequate action taken against the officers concerned.

To be considered by the Committee.

It is not possible to give very accurately the extent of surplus purchases. It may be stated that the purchases were made to build up a kind of reserve owing to the then prevailing international situation with the Korean War on. The subsequent yearly purchases made by this Organisation were on a considerably lower scale and are as under:—

1953-54	13,69,703
1954-55	4,68,870

From the above it will be seen that since a reserve had been built up, C.T.O. has been consuming these parts and their purchases in subsequent years have shown a progressive decrease. The one possible reason for the purchase of the spare parts in excess of the requirements is the distance between the location of the manufacturers and the C.T.O. and the time taken in bringing them. But the main cause is the practice of determining the requirements of spare parts on the advice of the Engineer of the Suppliers, which

was a bad practice. A system of late has been evolved for the purchase of spare parts after scrutinising the demands thoroughly. The reasons for the excess purchase of these spare parts are attributable to the system and not to any individual. Any enquiry into the purchase of spare parts, in the opinion of the Ministry, would not serve any useful purpose.

59	54 XV	The Committee should like to know the progress made in the clearance of the claims for shortage of Fertilizers outstanding against the various parties referred to in para 202(vii) of the Commercial Appendix to the Appropriation Accounts (Civil, 1950-51.	A note has been received (Appendix I, XXXVII).	No	comments.
60	65 XVI	The Committee are not quite satisfied with the manner in which Government had set about the deal for the purchase of tractors and allied equipments and they regret that Government did not set up a proper machinery of their own in time to assess the results of this experiment and the usefulness of the machinery and spare parts imported.	Notes have been received (Appendices XXXIV and XXXV).	See paras 159 to 161 of the Report.	
61	67 XVI	The Committee regret to note that the disposal of the surpluses had necessarily to be slow as these are of such a nature that ordinary cultivators are not interested in them. There is a constant risk of these surplus stores becoming thoroughly useless and resulting in total loss to Government. In the opinion of the Committee, this loss could have been minimised, if not totally avoided, had the advice tendered by the manufacturers for the purchase of spare parts been accepted with caution and after proper experimentation.	A note has been received (Appendix XXXIV).	See paras 162 and 163 of the Report.	
62	68 XVI	The Committee hope that action against delinquent officials responsible for the indiscriminate purchase of four different makes of heavy tractors and accessories would be speeded up and adequate and deterrent punishment imposed.		do.	do.
		The Committee desire that a review of the spare parts in stock should be undertaken with a view to segregate those		do.	

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		<p>parts which are not required in the immediate future and urgent action should be taken to dispose of them. The Committee would like to be informed of the progress made in bringing down the balances of spare parts. Details regarding spare parts consumed or condemned or disposed of as surplus should be indicated separately.</p>		
63	⁷⁰ XVI	<p>The Committee are of the view that action, if it had been taken earlier, would have saved the exchequer of this infructuous expenditure.</p> <p>The Committee are perturbed at the lethargic manner in which action had been taken in the disposal of the goods, particularly when every day was costing Government to the tune of Rs. 1,77½/- by way of rent. They feel that this case should have resulted in considerable loss to Government because of the lack of foresight and initiative on the part of the persons who had handled this case and they would, therefore, recommend that a thorough investigation should be made into this case with a view to assess the exact loss incurred by Government in this deal and also fix the responsibility therefor.</p>	<p>A note is awaited.</p>	<p>See para 177 of the Report.</p>
64	⁷¹ XVI	<p>The Committee doubt the wisdom of adjustments in accounts of the Reclamation Operation Account of the C.T.O. of interest charges due to staggered recoveries in anticipation of acceptance by State Governments of the liability. They desire to be informed of the final outcome in this case.</p>	<p>A note has been received (Appendix XXXIV). No comments.</p>	
65	⁷³ XVI	<p>The Committee can see no justification for the delay in fixing responsibility, in cases where losses have been established. They trust that Government would pay urgent attention to this state of affairs and desire that a thorough enquiry should be held into the cause of delay and responsibility fixed for the losses.</p>	<p>do.</p>	<p>do.</p>

66	74 XVI	In order to assess the progress of work in the disposal of these surplus stores, the Committee would like to know the value of stores declared surplus from time to time, as also the value of such stores actually disposed of.	A note has been received. (Appendix XXXIV). See para 164 of the Report.
67	75 XVI	The Committee feel that unless the recommendations made by them are implemented expeditiously, much of their value would be lost, and, therefore, suggest that the work of fixing the monetary limit of stores to be held by the C.T.O. should be speeded up.	do. See para 165 of the Report.
68	76 XVI	The Committee would like to be furnished with a statement duly vetted by Audit in the form appended to Appendix XXXVI to their Seventh Report showing the financial position as on 31st March, 1956 in regard to the operation of old units. Information as to the total number of hours these old tractors worked, the number of hours these tractors remained idle, the amount recovered from State Governments (State-wise) in respect of heavy tractors, the rates at which recoveries were made from the State Governments and to what use these tractors that remained idle were put to, may also be furnished in the statement.	do. No comments.
69	78 XXIII	In the light of the facts before them, the Committee find it difficult to accept the plea that the offers from the two firms, one from Bombay and the other from Madras, received within a span of a week or so were considered independently in the Ministry. Even if the Minister was not aware of the receipt of the offer from the Madras firm when he gave his decision on the offer from the Bombay firm the Committee feel that the Ministry should have apprised him of the receipt of the Madras offer for the same quality of rice at a lower rate, so that the deal with the Bombay firm could have been negotiated at lesser rate, which was profitable to Government. During their examination the Committee could not get a convincing answer for this omission or the part of the officials. They are, therefore, led to the belief that there had been a calculated effort in the Ministry not to take a decision on the offer from the Madras firm till the offer at a higher rate from the Bombay	A note has been received (Appendix XLII). See para 178 of the Report. The note is to be considered by the Committee.

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firm was accepted and orders placed. The Committee desire that an enquiry should be made into the case with a view to fix individual responsibility for the loss of about Rs. 2.67 lakhs to Government.

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XXIII

The Committee do not see why the C.T.O., which is run on a commercial basis, should charge the State Governments at a rate less than its actual cost of reclamation. They would invite attention of the Ministry to their as well as the Estimates Committee's recommendations in the past for bringing down the cost of operations of the Central Tractor Organisation and desired to have a detailed note from the Ministry indicating the extent to which the economics, etc. suggested by them had been effected. This note is still awaited.

Notes have been received (Appendices XXXVII, XXXVIII). See paras 166 to 167 of the Report.

MINISTRY OF HEALTH

31.
XV

(i) Action should be taken against the persons responsible for mispostings in the store accounts of the Medical Stores Depot, referred to in para 13(b) of the Audit Report (Civil) 1952-Part I. Although these mispostings are a war-time legacy, yet the Committee desire that disciplinary action should be taken against the officials concerned for not having reconciled them even so long after the end of the war. Mispostings in the ledgers are a concomitant evil of frauds and shortages of stores and should always be jealously safeguarded.

A note has been received. (Appendix XLIV). See para 182 of the Report.

(ii) The Committee would like to know, in due course, the outcome of the Report on the working of the Medical Stores Depots submitted by an officer of the Ministry of

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Finance and the improvements that are sought to be effected in the existing set-up of the Depots.

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XVI

The Committee can do no more than reiterate the recommendations made by the Quinine Conference and urge for an early winding up of the accounts of these schemes. The Committee would be glad to know, in due course, further developments in regard to the disposal of the remaining stocks of quinine after keeping a central reserve of quinine salts.

See para 183 of the Report.

An interim note* has been received.

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XVI

The Committee are of the view that the Government should prepare manufacturing, trading and profit and loss accounts and balance sheet for the manufacturing side of the Central Research Institute, Kasuali, so that one can have reliable and correct data to ensure that the prices of vaccines, sera, etc., are not inflated unnecessarily.

C.O.

See para 184 of the Report.

MINISTRY OF HOME AFFAIRS

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XV

The Committee should like to be furnished with a Report stating the result of re-examination of each case listed in para 18-A of Audit Report (Civil) 1952-Part I, as well as others which were still under examination by Audit, in which there had been an infraction of the broad principles of settlement stated to have been followed by Government at the time of merger of the Indian States, when they take up consideration of the next year's Accounts.

A note has been received (Appendix XLV).

See para 189 of the Report.

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XVI

The Committee regret that although more than seven months have elapsed since the Ministry were asked to furnish certain further information regarding the unauthorised retention of heavy cash balances, till the time of writing this report no reply had been received. The Committee desire this very much.

An interim note* has been received.

See para 190 of the Report.

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XVI

The Committee can do no more than reiterate the oft-repeated recommendation of the earlier Committees that Government should take speedier action against delinquent officers. The Committee trust that with the setting up of a Vigilance Organisation in the Ministry disposal of such cases of disciplinary action will be expedited.

See para 191 of the Report.

MINISTRY OF INFORMATION AND BROADCASTING

77 46 VII The Ministry should examine the questions of payment to news agencies on the basis of wordage supplied or used instead of on the basis of radio licences at the time of the next revision of the agreement with the agencies concerned. A note has been received (Appendix LXXIII). See para 459 of the Report.

78 38 XV Government should explore all avenues for effecting further economies in establishment charges of the A.I.R. The Economy Unit of the Ministry of Finance have taken up the review of the D.G., A.I.R. with a view to exploring avenues for economies and it is likely to take some time before outcome of the review is known. See para 195 of the Report.

79 92 XVI The Committee would like to know the final outcome of the proposal to provide a home service to Radio holders through the agency of the postmen and also how effective it had proved in checking the unlicensed possession of Radio Sets. The proposal has not yet been put into practice. It is still engaging the attention of the D.G., P. & T. who is the licensing authority and who has to arrange for all preliminaries before starting the door to door service. See para 196 of the Report.

MINISTRY OF IRRIGATION AND POWER

80 62 XVI The Committee regret to observe that the Ministry have not submitted to them the revised note as promised in regard to the introduction of administrative audit system in various River Valley Projects. They cannot over-emphasise the need to come to an early conclusion in this behalf and would reiterate the observation of the last Committee that as some of the major projects were already in the advanced stages of their execution, any procrastinations might defeat the object underlying the introduction of this system. A note has been received (Appendix XLVII). See para 198 of the Report.

81 93 XVI Considering the enormous outlay on river valley projects in the two Plans, the Committee are anxious that every ser- The Ministry have stated "The matter is still under consideration and is, however, See para 197 of the Report.

vicable bit of stores and machinery is utilised on any of the projects that might need it. With this end, the Committee would again emphasise that the Ministry of Irrigation and Power should urgently examine the feasibility of transferring the surplus stores in batches if necessary from the Hirakud Dam Project to other Projects, even without waiting for completion of the verification.

being dealt with on a high priority basis".

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XVI

The Committee would like to be informed whether shortages of stores as on 1st November, 1952, which, it has been stated, had been condoned by Government, were due to errors in accounting, and where real losses had occurred, whether Government had investigated into the shortages with a view to see if personal liability for the losses could be established or not.

A note has been received (Appendix LXVI).
See para 363 of the Report.

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XV

The Ministry of W.H.& S. and other big spending Ministries like the Railways, Defence, P&T Department should, in consultation with the Ministry of Labour, examine the question of inserting a mandatory clause in all the contracts coming under their purview, whereby the contractors should notify their vacancies to the Employment Exchanges.

MINISTRY OF LABOUR AND EMPLOYMENT

The matter was taken up with the various spending Ministries. The Ministry of Transport and Communications (Department of Communications and Civil Aviation) and the Ministry of Steel, Mines and Fuel have accepted the recommendations. The Ministry of Works, Housing and Supply have advised the C.P.W.D. contractors to notify the vacancies to the Exchanges but they have not agreed to the inclusion of a mandatory clause in the contract. The Ministries of Defence, Railways (Rly. Board) and Irrigation and Power have not communicated their final views. Final action on the recommendations will be taken on receipt of the replies from the above Ministries.

See para 273 of the Report.

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XV

The Committee would impress upon the Ministry of Labour the desirability of evolving a scheme for the better follow-up of the trainees after their discharge from the Training Centres. As one of the means towards this end, they sug-

The record card of each passed out trainee which should be maintained by the Training Centres has been prepared and the State Governments to whom the admini-

See para 204 of the Report.

gest that the Employment Exchanges Training Organisations should maintain a National Register of persons trained by them so that they might know where a person was employed after training and whether the manpower resources were being fully utilised for the economic advancement of the country.

strative control of the Training Centres has been transferred have been requested to instruct the authorities concerned under them to maintain the cards.

MINISTRY OF REHABILITATION

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The Committee do not understand how the F.A. and A.O. (a) The tender was approved by the Ministry of Finance on the 9th May, 1950. (b) The final rate of the new contract given on 16th May, 1950 was Rs. 19.6 per md.

See para 207 of the Report.

The Committee would like to know when the tender was approved by the Ministry of Finance and what was the final rate at which the new contract was given on the 16th May, 1950.

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XVI

The Committee recommend that cases in regard to review of the conduct of various Camp Commandants in charge of refugee camps should be pursued more vigorously and a revised note submitted to them stating the amount of loss involved in each case; recovery, if any, effected from the persons responsible; prospect of any recovery and disciplinary action taken.

A note has been received (Appendix L).

See para 208 of the Report.

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XVI

The Committee desire that the Ministry should inform the Committee of the loss to Government on account of frauds, embezzlements, etc., by Officers employed in the various camps in the 41 cases reported.

A note has been received (Appendix LXIX).

See para 209 of the Report.

- 88 93 XXIII The Committee would like to know how the loans on account of non-repayment of rehabilitation loans by displaced persons is being calculated and at what intervals. They would also like to be informed whether any amount of loan has been written off so far by the Centre.
- A note has been prepared in consultation with the Ministry of Finance (R) and was forwarded to the Chief Auditor, Food, Rehabilitation and Supply, New Delhi for comments. These have already been received and are being examined in the Ministry.
- See para 210 of the Report.

MINISTRY OF STEEL, MINES AND FUEL

- 89 30 XV The Committee regret to observe that although more than 10 months have elapsed since they examined the case referred to in Para 5(b) of the Audit Report (Civil), 1952—Part I relating to the delay in the disposal of certain Government buildings, the Ministry of Production have not so far intimated to the Committee the result of the investigation made by them as to why disciplinary action could not be taken by them against the delinquent officials who failed to safeguard Government's interest. They desire that the Ministry should apprise the Committee of the latest position well in advance of the date they take up consideration of the next year's Accounts of the Ministry.
- A note has been received (Appendix LIII).
- See para 226 of the Report.

- 90 103 XVI The Committee suggest that now that the Government have accepted the recommendation made by the last Committee that, the Accounts of Coal Production Fund should be closed as on 31st March, 1956 and the balance credited to the Consolidated Fund, the Ministry of Production should debit the Railway Department with the outstanding amount so that the responsibility for effecting the recoveries from the parties concerned or to write it off, if not recoverable, as they might deem fit, should devolve on them.
- An interim note has been received.
- The final note may be expedited.

MINISTRY OF TRANSPORT AND COMMUNICATIONS

- 91 33 XVI The Committee would like to be informed in due course of the further development relating to recovery from the Nationalist Chinese (KMT) Government (The amount to be recovered was Rs. 1,29,230).
- The Indian Embassy in Peking are being regularly reminded to expedite matters with the Chinese Government.
- See para 227 of the Report.

The Committee would like to know the progress made on the recovery from Pakistan of their share of contribution to the International Civil Aviation Organisation. (the sum involved \$ 15,635).

The Secretary General of the International Civil Aviation Organisation had advised that the matter may be taken up direct with the Pakistan Govt. Hence it is proposed to discuss this matter at the next meeting of the Steering Committee set up to settle India-Pakistan disputes. No date has yet been fixed for the meeting. In a subsequent letter dated the 17-10-57, the Ministry have stated "No change in the position has taken place as no date for the meeting of the Steering Committee has yet been decided".

See para 228 of the Report.

The Comptroller and Auditor-General should submit a report to the Committee in regard to the question of submission to Parliament the Audit Reports relating to the various Port Trusts in order to enable it to have an opportunity to appraise their financial position.

A note has been received (Appendix LIV).

See para 230 of the Report.

The note is to be considered by the Committee.

If, as urged by the Government, the higher rates of compensation paid to the Indian Shipping Companies for the ships requisitioned during the last War for the U.K. Government was treated by Government as a measure of assistance to the Indian Shipping Industry towards its post-war rehabilitation, the Committee fail to understand why subsequent attempts were made (though in vain) by Government to recover the extra amount from the U.K. Government instead of taking a straight vote of the then Legislature of this grant-in-aid. Actually, no such vote was taken. As the expenditure relates to the pre-Partition period, there is, however, no question of taking the Parliament vote now.

There seems to be some misunderstanding in regard to this matter. The requisitioning of Indian ships was done by the Government of India for and on behalf of the U.K. Government whose responsibility it was eventually to pay compensation to the Indian Companies concerned. When the matter was taken up with that Government, they indicated that they would pay compensation to Indian Companies at the same rates as adopted by them in respect of their own requisitioned ships. These rates were found by the then Government of India to be inadequate having regard to the

See para 496 of the Report.

The Committee should like to know the present position regarding the recovery of the cost (Rs. 73.912) of two barges from the Commander-in-Chief, East Indies, Naval Headquarters, Ceylon and also about the recovery of the U.K.'s share of deficit in the account.

special position of Indian Shipping Companies and so, they decided to pay the latter at higher rates in full knowledge of the fact, that the whole amount so paid would not be reimbursed by the U.K. Government, the idea being to treat the difference as subsidy to the Indian Companies. Accordingly payments were made to the Indian Companies by the Government of India leaving it to be subsequently decided by negotiation with the U.K. Government as how much of their payment would be reimbursed by the latter Government. Efforts were then made to recover from the U.K. Government, the maximum amount possible. These negotiations were inevitably prolonged over a number of years.

The matter regarding the recovery from the Government of U.K. of the cost of two barges taken over by the Commander *H.M.S. Braganza* which had for a long time been under correspondence between A.G., Bombay and the British Naval Cashier, Bombay and Captain Superintendent, Royal Yard, Trincomalee, was taken up with U.K. Government by the High Commissioner for India in London. A final reply from that Government is still awaited. That Government have explained that the delay in giving a final decision is due to the fact that it has been necessary to conduct a considerable amount of research into wartime and post-War records. In the meanwhile, the Government of U.K. has enquired whether the *Braganza* was a Royal Navy or Royal Indian Navy Ship. The Ministry of Defence have been asked whether they can clarify this point.

See para 496 of the Report.

As regards the question of the recovery of the U.K. Government share of deficit in the account it may be stated that the cost of the two lighters in question would be recovered by the Government of India. The accounts have already been settled with that Government, excepting the recovery of Rs. 7,39,120/-. No other amount is outstanding from that Government. The accounts of the scheme can, however, be finally closed only after this outstanding amount is adjusted.

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XXIII

Despite financial irregularities committed by the Officer in respect of which the Ministry did not consider disciplinary action necessary although when viewed as a whole the conduct of the officer appeared improper, the Ministry while replying to a reference from another Ministry proposing to re-employ him did not communicate those facts to that Ministry. The Committee feel that in the larger interest of Government as a whole, one Ministry should communicate irregularities on the part of an Officer intended to be re-employed by another Ministry to that other Ministry for their benefit. At the instance of the Committee the representative of the External Affairs Ministry has now agreed to communicate these irregularities to the other Ministry which had meanwhile employed him.

The Ministry of External Affairs have stated : See para 494 of the
"Noted. Necessary information has been Report.
furnished to the Ministry under whom the Officer was employed after relinquishing charge of his post under this Ministry."

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XXIII

The Committee find it difficult to accept the view of the Ministry that the report that "on the way from Calcutta to Assam, the engines, the circulating pumps, the lubricating system and the dynamos gave the same trouble as in Calcutta" should be discounted as incorrect as an officer of the Assam Government while taking possession of the boat at Calcutta as well as another officer while taking charge of it at Assam had certified that the condition of the

A note has been received. (Appendix LV):

See para 231 of the Report.

vessel was good. They are rather concerned at the complicity of the persons concerned who advised putting the vessel on the seas before it was declared seaworthy which contravened the Indian Steam Vessels Act. They consider the plea that the vessel was required urgently and there was no time to carry out the repairs as hardly convincing especially when, according to the Ministry themselves, the boat which was purchased in September, 1948, was commissioned only in March, 1949 and worked only for 56 days in 1949.

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XXIII

Judging from the facts before them, the Committee feel that the purchase of the second-hand vessel lacked justification. They understand that the Superintending Engineer, Assam had conducted a detailed enquiry into this case and submitted a report to Government. They desire that a copy of the report of the Superintending Engineer, Assam and Government's comments thereon be submitted to them.

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MINISTRY OF WORKS, HOUSING AND SUPPLY

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There is definitely room for improvement in the standards of building and control over expenditure (especially in the matter of Works expenditure in this Ministry).

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XV

(i) In the case referred to in Para 6(a) of Audit Report (Civil), 1952—Part I relating to the payment of additional railway freight by modifying the sale letter issued to a certain firm for the sale of 5200 tons of surplus Iron Bars the Committee observed that the note recorded by the Assistant Director recommending payment of freight to the firm did not show that he was acting in any way under the instructions of the Deputy Director-General, his immediate superior. The Officer's plea, which was not substantiated by records, should not have been accepted by the Ministry.

It has now been decided, in consultation with the Union Public Service Commission, that the concerned Assistant Director should be exonerated.

See para 258 of the Report.

As regards the circumstances of the case in which this decision was taken the Ministry have submitted a note. (Appendix LVI).

(ii) Any officer who makes a proposal against the financial interest of Government, merely because he has been asked by a superior officer to do so, is not fit to hold any position of trust or responsibility.

(iii) The Committee consider that the whole case is surcharged with suspicion and the Officer responsible for the extra payment to the firm in the form of railway freight had been let off lightly.

The Committee are strongly of the opinion that the disciplinary aspect of this case should be re-opened and adequate punishment awarded to the officers concerned, commensurate with the severity of the mistake committed.

101 34
XV

(i) The amount paid by Government to the firm Reema Construction Company of U.K. for the construction of nine blocks of prefabricated hospital buildings as a demonstration of their patent system of construction claimed to be cheaper, quicker and more durable, was almost double of what the work would have cost had it been executed by traditional methods.

(ii) If the 'letter of intent' constituted in this case the agreement enabling the Govt. to make the advance payments, the Committee fail to understand why the Ministry of Law were not consulted before its issue, as required under the existing rules, and why a copy of this was not forwarded to Audit in the same manner as other contracts are ordinarily communicated as, for all practical purposes the letter took the place of the contract. If a copy had been so forwarded to Audit, it would have enabled them to scrutinise the terms under which payments were to be made to the British firms. Such a procedure should invariably be observed by the spending Dep'ts. in future.

(iii) It was rather unfortunate that this firm was brought in to demonstrate this type of 'low cost' construction in India, as curiously enough this experimental construction launched without any firm estimates of costs failed, thereby nullifying its very purpose. Further the financial inter-

The suggestion of the Public Accounts Committee has been discussed further by the representatives of the Ministries of Works, Housing and Supply, Health and Finance. It has not been found possible to fix responsibility on an individual. It may further be added that:—

(i) The decision to award the construction work to Reema Construction Co.Ltd., Salisbury, England, as an experimental measure, was taken jointly at the level of Ministers.

(ii) At subsequent stages of negotiations with the firm discussions were held amongst the Ministers concerned, and action was taken on the basis of these discussions.

(iii) It was the intention to show the draft of the formal agreement when ready both to the Ministry of Law and to Audit. However, the discussion with the firm did not lead to a formal agreement and the matter had finally to be settled

See para 342 of the Report.

ests of the State were not properly safeguarded in the letter of intent' in this case.

on the basis of the 'letter of intent' as collateral evidence of the understanding between the parties. Necessary documents have since been furnished to Audit.

Noted.

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XV

(iv) The Committee consider that the entire scheme was ill-conceived *ab initio* and that responsibility should be fixed

Noted.

While the Committee do not want to sit on judgement over the decision of the then Director-General in the case relating to the disposal of surplus American Stores, referred to in para (f) of the Audit Report (Civil) 1952—Part I, they cannot help expressing the view that proper discretion had not been exercised for securing an equitable return for these stores and that the whole burden for not doing so has been put on the Consultative Committee which is now defunct.

See para 343 of the Report.

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XV

In the case referred to in para 23(b) of Audit Report (Civil), 1952—Part II relating to the improper payment to the tune of Rs. 18 lakhs made to certain contractors, the Committee asked for information on certain points arising therefrom, which has not so far been furnished to them, although a period of more than 6 months has elapsed. Such delays in furnishing information result in making it impossible for action being taken against officers responsible for irregularities as by the time final conclusions are arrived at various changes might have occurred, such as retirement of officials, etc.

A note has been received (Appendix LXIV). See para 343 of the Report.

The Chief Engineer and other responsible officers in the C.P.W.D. who handled this case at various stages have shown a reckless disregard of all canons of financial propriety in administering public funds. The Committee desire that there should be no further delay either in furnishing the information asked for or in fixing responsibility and taking suitable action against the concerned officers.

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XVI

The Committee are at a loss to understand the reasons for the Ministry of W.H. & S. suggesting to the Departmental Finance Committee that the setting up of the Chief Technical Examinee's Organisation, approved earlier by the

A note has been received. (Appendix LXV). See para 345 of the Report.

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latter, should be postponed till experience was gained in the working of the Surveyor of Works Scheme, when it had originally been decided by the inter Departmental Committee and also by the Departmental Finance Committee that this scheme should be implemented first.

The Committee also fail to see the relationship between the two organisations.

The Committee are surprised to find that even after the lapse of so many years little or no progress had been made in implementing their recommendations. They, therefore, desire that the whole question should be reviewed immediately and a note submitted to them without any delay.

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 XVI
The Committee considered it unfortunate that sufficiently searching technical investigations had not been conducted to afford a reasonable assurance that the expenditure on the construction of the pre-fabricated Housing Factory would prove remunerative, before entering into this contract. With its past history so disappointing, the Committee are pained to learn that the present progress of the project is also not encouraging.

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The Committee would like to defer further consideration of this case till the Expert Committee had submitted its Report and the final settlement with the firm had been reported on by the C.&A.G.

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The Committee would urge that early action should be taken to fix the final price of the road rollers and the differences

A note has been received. (Appendix LXXXIX). See para 259 of the Report.

A note has been received. (Appendix XC). -do-

As regards Govt.'s final settlement with Messrs. B.S.W. Ltd., a termination agreement between the Govt. and B.S.W. was executed on the 31st May, 1956. The termination agreement is under scrutiny with the Director of Commercial Audit at present.

A note has been received. (Appendix XCI). See para 260 of the Report.

be recovered from the various indentors. They desire that the question of recovery of these outstanding dues should be vigorously pursued by the Ministry and they express the hope that by the time they take up next year's Accounts, the balance recoverable would be nil.

- 138 The Committee are concerned at the slow manner in which action was being taken in this case which was detected in 1949 and enquiry instituted in 1952.
- 135 XVI The recommendation involves disciplinary action and consultations with the U.P.S.C. Every effort is being made to finalise action and a reply will be sent to Lok Sabha Secretariat as early as possible. See para 261 of the Report.
- 109 The Committee are not satisfied that the executive engineer in-charge of the work of constructing residential quarters was blameless in making a wrong estimate resulting in excess payment to the contractor. The Committee feel that the Executive Engineer should have negotiated with the contractor for a reasonable rate for the additional quantity at last and that if the contractor was intractable, he should have left the design unchanged. They are surprised at the plea of defective estimating and the heavy work load of the Executive Engineer in extenuation. They also find it difficult to understand that he should have acted on his own responsibility in this case involving large extra payment to the contractor and would like to have a thorough enquiry made into this case and responsibility fixed. See para 262 of the Report.
- 110 The Committee consider that the so-called safeguarding clauses as they stand do not at all safeguard the interests of the Public Exchequer and result in excess payments as in the case referred to above. They feel that there is a lacuna which should be filled up. They would, in this connection, invite attention to their recommendation in Para 90 of their 15th Report suggesting the desirability of bringing before Parliament legislation empowering Government to review concluded contracts and to effect recovery of demonstrably excessive or unconscionable payments made as a result of ignorance, oversight, ineptitude, incompetence on corruption on the part of the agents of Govt. The note is to be considered by the Committee. See para 263 of the Report.

A note has been received. (Appendix LVII).

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XXIII

The Committee can hardly be convinced of the circumstances which, according to the Director General of Supplies & Disposals led to the misunderstanding about the proceeding of this particular indent. It was the duty of the Purchase Organisation to have got proper clarification from the indentor in which it had obviously failed.

This observation has been noted and suitable instructions have been issued. See para 264 of the Report.

The representative of the Ministry of W.H.&S. admitted that there was really no explanation in extenuation of the delay of over two years in initiating action in respect of this indent. It was a case of pure and simple neglect on the part of the officer concerned, whose duty it was to review the outstanding indents. The Committee were informed that a warning had been administered to the officer. They feel that Government had been needlessly mild in this matter.

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XXIII

The Committee were not fully convinced of the plea by the Administrative Ministry that they were guided in this case by the advice of the Ministry of Law. The lingering manner in which the case had been progressed—in fact the then Directorate General of Supplies and Disposals had put up a plausible case against claiming refund—indicated clearly that there had been insufficient vigour in dealing with this case.

The Ministries of W.H.&S. and Law have submitted separate notes on the subject. Further queries were raised by this Secretariat and the Ministries have sent their replies to these also. (Appendices LVIII and LIX). See para 265 of the Report.

The Committee are alarmed at such delays and would urge that Government should evolve a procedure whereby delay in the process of obtaining legal opinion is reduced to the minimum as otherwise chances of successful prosecution of fit cases would be adversely affected by mere passage of time.

During the last two years, the Committee had come across cases which, in view of the conflicting opinion expressed by the Law Officers could not be proceeded with to a success-

ful end. They would like that Government should give some thought to this matter.

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XXIII

The Committee would like to be apprised of the outcome of this case.

The Committee will be apprised of outcome of the case as soon as the arbitration proceedings are completed. Further report is awaited.

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XXIII

The Committee are surprised that in the case of misappropriation of Government money to the tune of Rs. 12 57 lakhs by an auctioneering firm departmental action against the officials involved had not yet been investigated, although more than 8 years had elapsed. They regret to observe that three of the officials involved had either resigned, retired or migrated to Pakistan. They could not get any satisfactory explanation as to why departmental proceedings were not instituted at the same time it was decided to launch criminal proceedings against the firm.

An interim note* has been received. See para 266 of Report.

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XXIII

The Committee were surprised to learn that the delay in the completion of the construction of a house requisitioned by Government was attributable to the inadequate delegation of powers. They trust that Government would review the existing powers of authorities and make suitable delegation of powers so as to avoid a recurrence of such cases.

This recommendation is under active consideration. Further report is awaited.

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XXIII

The Committee believe that arrangements already exist in the India Store Department, London and elsewhere for keeping a check on the progress of deliveries and on the due compliance of certain conditions, especially in cases where, because of these conditions the contract has been given to a higher tenderer in preference to a lower acceptable tenderer. It should be noted here that action to lodge a claim has been taken in this case only after an enquiry was made by the Lok Sabha Secretariat. The Committee would suggest that an enquiry which would lead to the devising of measures to remove any existing defects in the present machinery would be worthwhile.

A note has been received. (Appendix LXI). See para 267 of the Report.

APPENDIX II

No. 1—22/57—Budget.

New Delhi, the 18th April, 1958.

Note from the Ministry of Food and Agriculture (Department of Agriculture) giving reasons for Supplementary Grants and subsequent surrenders under Grant No. 45—Agriculture, Appropriation Accounts (Civil), 1953-54

Question: What is the justification for Supplementary Grants and subsequent surrenders?

Answer: During 1953-54 the following Supplementary Grants were obtained under Grant No. 45—Agriculture:—

S. No.	Session of the Parliament	Sub-Head under which obtained	Amount of Supplementary Grant
			Rs.
1.	Sept., 1953	B. 5—Vegetable Oil Products Controller for India	1,36,000
2.	December, 1953	O—Expenditure on Measures designed to assist Cotton Growers	32,22,000
3.	February, 1954	L. 3—Indian Institute of Sugar Technology	500
		L. 7—Indian Institute of Sugarcane Research	500

I (1) The Supplementary Grant of Rs. 1,36,000 obtained in September, 1953 Session of the Parliament was meant to augment the provision for the Office of the Vegetable Oil-Products Controller for India. This was considered necessary to meet the expenditure on staff and equipment in connection with the following additional work which could not be foreseen at the time of making budget provision for 1953-54:—

- (i) Enforcement of Industries (Development and Regulation) Act, 1952 in respect of Sugar and Vanaspati. Government decision was taken on 18th March, 1953.
- (ii) Implementation of the recommendations of Ghee Adulteration Committee. Decision taken by Government on 1st April, 1953.
- (iii) Payment of subsidy to Sugar Factories on account of reduction in sugar prices of controlled sugar stocks. Decision taken by Government in November, 1952.

The Supplementary Grant of Rs. 1,36,000 increased the original budget provision of Rs. 1,86,000 to Rs. 3,22,000. The actual expenditure on the office of the Vegetable Oil-Products Controller for India during 1953-54, however, came to Rs. 2,99,179. It will be seen that over 92 per cent. of the provision inclusive of the amount of Supplementary Grant was actually utilised.

(2) The Supplementary Grant of Rs. 32,22,000 obtained in December, 1953 Session of the Parliament was meant to provide for funds required for making payments to the Governments of Bombay and Saurashtra of their claim in connection with the losses sustained by them on account of remission of land revenue granted on the additional area brought under cotton cultivation during the year 1950-51. This claim was based on a policy decision of the Government of India taken on 25th April, 1950. The actual expenditure came to Rs. 32,42,384. Thus the provision made through Supplementary Grant was utilised in full. A saving of Rs. 6 lakhs was expected under sub-head F.6(2) late in November, 1953, when the demand for the Supplementary Grant had already been submitted to the Ministry of Finance.

(3) The Supplementary Grant of Rs. 1,000 obtained in February, 1954 session of the Parliament was a token provision to seek the approval of the Parliament for incurring expenditure on Indian Institute of Sugar Technology and Indian Institute of Sugarcane Research which treated as new services.

II. The main sub-heads which contributed to the major portion of the surrenders of Rs. 73,85,832 were B.1, F.6(1) to F.6(3), I, J, K.5, L.2(2), M and N.

Sub-head B.1.—Subordinate and Expert Staff—I.A.R.I. accounts for Rs. 5.14 lakhs due to vacancies, lesser payments for custom duty and less procurements of equipment, while group head F.6 for about Rs. 11.80 lakhs as requirements of State Governments could not be estimated accurately till late in the year. Sub-head I—Payment of net proceeds of the Cess on Agricultural Produce to the I.C.A.R. and group head J—Grants to the I.C.A.R. were responsible for the saving of Rs. 3 lakhs and Rs. 17.97 lakhs respectively mainly because of lesser collections of cess on Agricultural Produce (Rs. 3 lakhs) and non-implementation of certain schemes (Rs. 2.97 lakhs) and change in classification (Rs. 15 lakhs) decided on 3rd September, 1953. The saving of about Rs. 3.81 lakhs under sub-head K—Agricultural Marketing—K.5—Export Quality Control was mainly due to delay in the implementation of certain schemes of grading and decision on 4th February, 1954 not to construct laboratory buildings during that year. The savings under sub-head L.2(2)—Fumigation of American Cotton—Other charges amounting to Rs. 6.73 lakhs was due to lesser import of American Cotton entailing less expenditure on Fumigation. Sub-Heads M—Transfer to a fund of the proceeds on the sale of Sugar Stocks seized on decontrol and N—Cane Development and Regulation of Sugar Industry account for a saving of about Rs. 6 lakhs which was due to lesser realization of profits on the frozen stocks of sugar and decision to implement the scheme more by way of loans than by giving subsidy.

The savings explained above total upto Rs. 54·45 lakhs. The remaining savings are spread over a number of sub-heads.

As there was no firm data representing the actual expenditure on these sub-heads at the time Parliament was approached for Supplementary Grant, it was not possible to anticipate the extent of savings.

It may be stated for the information of the Public Accounts Committee that a budget cell has been created in this Department since September, 1955 for co-ordinating all budget matters. Since then a detailed and thorough examination is conducted before asking for any Supplementary Demand. During 1955-56 no supplementary grant was obtained. Similarly during 1956-57 only two token Supplementary Grants were obtained for regularising expenditure on new services. During the year 1957-58, however, this Department asked for a Supplementary Grant of Rs. 52·17 lakhs under Grant No. 46—Misc. Departments and other Expenditure under the Ministry of Food and Agriculture after thoroughly examining the possibility of meeting this demand from within the budgeted provision.

The note has been vetted by Audit.

M. LAL,
Joint Secretary.

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APPENDIX III

Note from the Ministry of Food and Agriculture (Department of Agriculture) giving reasons for over-budgeting under sub-head N—Cane Development and Regulation of Sugar Industry, Grant No. 45—Agriculture, Appropriation Accounts (Civil) 1953-54.

"1. Basis of provision of Rs. 18 lakhs under sub-head N—Cane Development and Regulation of Sugar Industry Grant No. 45—Agriculture—in the budget for the year 1953-54, reasons for non-utilization of the major portion of the provision and non-payment to the States of the full amount retained as final grant under this sub-head."

2. What are the reasons for over-budgeting?"

MINISTRY'S REPLY

The Appropriation Accounts for 1953-54 show the position as under:—

Sub-head/Scheme	Original Grant	Actual Expenditure	Savings
	Rs.	Rs.	Rs.
N—Cane Development and Regulation of Sugar Industry	O 18,00,000 R(—) 10,86,100		
	<u>7,13,900</u>	*7,13,900	Nil

*During the year 1953-54, Government paid Rs. 7,13,900 to the Indian Central Sugarcane Committee. Out of this, a sum of Rs. 3,48,898 was disbursed by the Committee to State Governments and the balance of Rs. 3,65,002 was refunded to the Central Government in 1954-55.

An allocation of Rs. 75 lakhs was made on 15th February, 1945 from the Temporary Sugar Excise Fund collected out of the additional excise duty on sugar levied in 1943-44 and 1944-45 for subsidising Sugarcane Development Schemes in the States. These schemes were initiated in 1948-49 by the Indian Central Sugarcane Committee for a period of 5 years to be subsidised jointly by the Centre and the State Governments on 50:50 basis. These schemes were extended upto the end of the First Five Year Plan and to cover all sugarcane producing States.

2. On the basis of the information collected by the Indian Central Sugarcane Committee from the State Governments in 1953-54 as well as the revised estimates of expenditure on these schemes in 1952-53 (Rs. 18,21,428), a budget provision of Rs. 18,00,000 was made, in 1953-54, in respect of Central subsidy on these schemes on 50 : 50 basis. This provision was based on the difference between the total allocation of Rs. 75 lakhs and the amount actually transferred to the States during the years 1948-49 to 1952-53 in respect of development schemes. During the course of the same year, the Working Party consisting of the representatives of the Planning Commission, Ministry of Food and Agriculture and the Indian Central Sugarcane Committee, decided, on 18th August, 1953, that the entire cost of development staff under these schemes should be the responsibility of the State Governments and that the basis of financial assistance for these schemes should be the same as for G.M.F. Schemes. With this decision, the amount of financial assistance for the year was considerably reduced. The State Governments made vigorous protests against this reduction on the following grounds:—

- (a) The Schemes had run for the greater part of the year on the old basis and that the staff had been in position.
- (b) The staff required for carrying out the schemes like distribution of disease-free seed, protection of crops, demonstration farms, intensive compost drive, etc., was not shown separately but was common for all the development schemes including the above items.

3. It was expected that decisions on these proposals would be taken at least before the close of the financial year but it could not be taken until the 6th July, 1954, i.e., long after the close of the financial year. Accordingly, a sum of Rs. 7,13,900, which included the element of provision for trained personnel, was sanctioned for payment to the Indian Central Sugarcane Committee for disbursement to the State Governments *vide* letter No. F 1-2/54-S. Instt., dated the 26th March, 1954, to avoid lapse of funds. While a sum of Rs. 8,54,730 was re-appropriated to other heads of account, the balance of Rs. 2,31,370 was surrendered to Government.

4. In pursuance of the decision taken on the 6th July, 1954, subsidy on account of staff to the extent of 50 per cent. in 1953-54, 33 per cent. in 1954-55 and only 25 per cent. in 1955-56 was payable to the State Governments. A sum of Rs. 7,06,637 was, therefore, paid during the year 1955-56 to the State Governments on account of subsidy for employment of staff for the development schemes in 1953-54.

5. Further, the revised pattern of financial assistance as recommended by the Working Party at its meeting held on 18th August, 1953, was then accepted by the State Governments of Uttar Pradesh, Bihar and West Bengal and total grant of Rs. 3,48,898, details of which are given below, was disbursed to them in 1953-54 by the Indian Central Sugarcane Committee:

State	Amount
Uttar Pradesh	.. Rs. 1,65,300
Bihar	.. Rs. 1,79,500
West Bengal	.. Rs. 4,098
TOTAL	.. Rs. 3,48,898

Since the pattern of financial assistance applicable to the sugarcane schemes in the States of Punjab, Bombay, Madras and Andhra Pradesh could not be reviewed by the Working Party before the close of the financial year, no payment, on account of subsidy payable to the State Governments, could be made to them and hence the balance amount of Rs. 3,65,002 was refunded by the Indian Central Sugarcane Committee in 1954-55.

6. Pay and Accounts Officer has certified the correctness of the amount paid to the Indian Central Sugarcane Committee, the amount paid by the Committee to the State Governments and also the amount refunded by the Committee to Government.

7. This note has also been vetted by Audit.

21-3-58.

T. C. PURI,
Joint Secretary.

APPENDIX IV

Note from the Ministry of Commerce and Industry giving the extent of control (administrative and financial) that the Ministry exercises over the Khadi Commission under Grant—Industries, Appropriation Accounts (Civil) 1953-54 and 1954-55.

The Khadi and Village Industries Commission has been established with effect from the 1st April, 1957 under Section 4 of the Khadi and Village Industries Commission Act, 1956. The Commission enjoys complete autonomy except to the extent it is limited by the provisions of the Act and the rules framed thereunder.

2. The administrative and financial control exercised by the Central Government over the Commission is as indicated below:

A. Administrative Control:

- (i) The members of the Commission, including the Chairman and the Member-Secretary, are appointed by Government (Sections 4 and 5);
- (ii) Government may remove from office any member of the Commission who in the opinion of Government has failed or is unable to carry out his duties so as to render his removal necessary or who has any financial interest in any subsisting contract made with the Commission or in any business undertaking dealing with khadi or any other village industries (Rules 4 and 5);
- (iii) Government may depute one or two of their officers to attend any meetings of the Commission and take part in the discussion of the Commission although such officers shall not have the right of vote [Section 9(3)];
- (iv) no person whose honorarium or the maximum salary exceeds five hundred rupees per month shall be appointed by the Commission except with the previous approval of Government [proviso to Section 14(2)];
- (v) in the discharge of its functions under the Act, the Commission shall be bound by such directions as Government may give to it (Section 16);
- (vi) the Commission shall furnish to Government at such time and in such form and manner as may be prescribed, or as Government may direct, such returns and statements and such particulars in regard to any proposed or existing programme for the promotion of development of khadi and village industries as Government may from time to time require [Section 24(i)];

- (vii) the Commission shall as soon as possible after the end of each financial year submit to Government a report in such form and before such date as may be prescribed, giving a true and full account of its activities, policy and programme during the previous financial year [Section 24(2)];
- (viii) Government may by notification in the Official Gazette direct that the Commission shall be dissolved from such date as may be specified (Section 25);
- (ix) the Commission may with the previous sanction of Government make regulations *for the discharge of its functions*. Government may by notification in the Official Gazette rescind any regulation which it has sanctioned and thereupon the regulation shall cease to have effect [Section 27(3)];
- (x) Government may, by notification in the Official Gazette, make rules to give effect to the provisions of the Khadi and Village Industries Commission Act, 1956 in respect of the term of office, the terms and conditions of service of the Chairman, the Secretary and the other members of, and the Financial Adviser to, the Commission, and in respect of the powers and duties to be exercised and performed by the Secretary and the Financial Adviser (Section 26).

B. Financial:

- (i) Government shall appoint a person not being a member to be the Financial Adviser to the Commission (Section 6);
- (ii) the Financial Adviser shall advise the Commission on all matters relating to receipts and expenditure. He shall have the right to record his views on every proposal involving expenditure from the funds of the Commission prior to the consideration and approval of such proposal by the Commission. He shall have the authority to advise the Commission that a particular decision affecting the general financial policy of Government should be referred to Government for consideration (rule 12);
- (iii) funds to the Commission are provided by Government (Section 17);
- (iv) except as otherwise directed by Government all moneys belonging to such funds shall be deposited in the Reserve Bank of India or with the agents of the Reserve Bank or where there is neither an office of the Bank nor an agent in a Government treasury or be invested in such securities as may be approved by Government [Section 18(2)];
- (v) the Commission shall prepare and submit to Government for approval two separate annual budgets for khadi and village industries. No sum shall be expended by or on

behalf of the Commission unless the expenditure is covered by a specific provision in the budget approved by Government. The Commission may however make re-appropriation within each budget, subject to certain limitations (Section 20);

- (vi) the accounts of the Commission shall be audited by the Comptroller and Auditor General of India at such intervals as may be prescribed by him (Section 23);
- (vii) the Commission shall disburse grants and subsidies in accordance with and at rates and on terms sanctioned by Government in respect of each industry from time to time. The Commission shall grant loans in accordance with the provisions of the loan Rules for Khadi and Village Industries made by Government from time to time and in accordance with and at rates and on terms sanctioned by Government in respect of each industry from time to time (Rules 27 and 28);
- (viii) Government may by notification in the Official Gazette make rules to give effect to the provisions of the Act in respect of, among other things, procedure and conditions to be followed in borrowing moneys by the Commission, in entering into contracts and the manner in which accounts are to be maintained [Section 26(1) and (2)].

A. ZAMAN,

Joint Secretary.

NEW DELHI;
The 8th April, 1958.

APPENDIX TO NOTE No. 2

Note on Recruitment to Posts in the Khadi and Village Industries Commission

The Khadi and Village Industries Commission, an autonomous body corporate constituted under section 4 of Act 61 of 1956, was set up with effect from the 1st April, 1957. Its powers are subject to limitations and conditions prescribed in that Act and in the rules framed thereunder.

2. Section 14(2) of the Act provides that subject to such rules as may be made by the Central Government in this behalf, the Commission may appoint such officers and servants as it considers necessary for the efficient performance of its functions; provided that no person whose honorarium or the maximum salary exceeds Rs. 500 per month, shall be appointed by the Commission except with the previous approval of the Central Government.

3. It will thus be seen that only appointments which carry a salary or honorarium exceeding Rs. 500 per month require prior approval of Government. So far 45 appointments of this description have been made, of which 34 were of officers working under the former All India Khadi and Village Industries Board whose

services were transferred to the Commission when it was set up. Of the rest, 11 appointments recommended by the Commission have been approved by the Central Government. As a matter of convention, all proposals made by the Commission under proviso to section 14(2) are approved by Government. It is not necessary for the Central Government to consult the Union Public Service Commission before conveying the approval, as Article 320(3) of the Constitution is not attracted.

4. No rule has been framed under section 14(2) restricting the Commission's powers of appointment (save as provided for posts carrying a salary or honorarium exceeding Rs. 500 per month). For all appointments carrying a salary of Rs. 500 or less per month, the Commission is, therefore, the final authority and it need not recruit through the Union Public Service Commission. For recruitment of personnel for posts to which appointments can be made by the Commission itself i.e. for posts carrying salary or honorarium not exceeding Rs. 500 per month, the selection is usually made by a Selection Committee consisting of four or five senior officers of the Commission. The Commission at its second meeting on the 30th April, 1957 constituted a committee consisting of Chairman, and two members, with powers to co-opt two additional members, for selecting candidates for appointments to posts carrying a basic pay exceeding Rs. 275 per month and other matters connected therewith. A Departmental Promotion Committee has also been formed for dealing with questions regarding promotion. The Committee reviews the seniority list periodically on the basis of confidential reports of the staff and prepares a panel of persons for each category from out of which subsequent vacancies are filled. Steps have also been taken by the Commission to lay down duties and responsibilities and to prescribe qualifications in respect of all categories of posts under its purview.

5. Generally, it may be said that for senior appointments, specially those carrying a salary or honorarium exceeding Rs. 500 per month, the Commission has taken on loan the services of officers of the Central or State Governments. The Commission has also appointed persons described as "social and constructive workers", i.e. those who believe in the Commission's ideology of rural reconstruction and have had experience in such work. Regarding the manner of initial selection for posts carrying salary exceeding Rs. 500 p.m. which requires the approval of the Central Government, the Khadi and Village Industries Commission are framing Recruitment Rules. Pending the finalisation of these Rules the initial selection is being made by the Commission through a staff selection committee composed of the Chief Executive Officer, Deputy Chief Executive Officer and two members of the Khadi and Village Industries Commission.

APPENDIX V

No. 32(3)/58-KVI(VIC)

Note from the Ministry of Commerce and Industry giving the amounts sanctioned each year from 1954-55 to 1956-57 for the development of the Khadi industry and the amount given to State Governments, private institutions, co-operative societies, etc. under Grant No. 2—Industries, Appropriation Accounts (Civil) 1953-54 and 1954-55.

In January, 1953, Government constituted the All-India Khadi and Village Industries Board with the object of preparing and executing programmes relating to khadi and other village industries. The Board was replaced with effect from the 1st April, 1957, by the Khadi and Village Industries Commission established under Section 4 of the Khadi and Village Industries Commission Act, 1956.

2. The programmes for the development of the khadi industry are financed from the cess levied under the Khadi and Other Handloom Industries Development (Additional Excise Duty on Cloth) Act, 1953. The programmes for the development of Ambar Khadi (as distinguished from traditional khadi) were upto 1956-57 being financed from the cess fund. With effect from the financial year 1957-58, the expenditure on Ambar khadi is not being debited to the cess fund but is being met from the general revenues.

3. The Board used to execute its programmes either directly, as in the case of trading operations or through its own certified organisation, other registered bodies, co-operative societies, statutory State Boards, etc. Funds for the development of the khadi industry were also sanctioned to the State Governments by the Central Government direct on the advice of the Board.

4. The amounts shown in Part (A) of the sub-joined table were sanctioned during each of the years 1954-55 to 1956-57, to the All-India Khadi and Village Industries Board and the State Governments.

5. The funds sanctioned to the State Governments for the development of khadi (traditional as well as Ambar) are also shown separately in part 'B' of the table.

6. As already explained, funds were disbursed by the Board through registered bodies, statutory State Board etc.

TABLE

PART—A

What amounts were sanctioned each year from 1954-55 to 1956-57 for the development of handloom and khadi industries?

KHADI

1954-55										Final estimates Rs.	Actual expenditure Rs.
Grant	.	.	.	.	.	.	.	.	.	1,57,96,000	2,28,06,802
Loan	.	.	.	.	.	.	.	.	.	1,20,00,000	1,04,63,850
1955-56											
Grant	.	.	.	.	.	.	.	.	.	5,16,00,000	5,11,23,507
Loan	.	.	.	.	.	.	.	.	.	*1,87,00,000	*1,87,00,000
1956-57											
Grant	.	.	.	.	.	.	.	.	.	6,35,45,000	6,74,02,993
Loan	.	.	.	.	.	.	.	.	.	*4,86,00,000	4,85,03,041

*Subject to verification by the Accountant General, Central Revenue

PART—B

What amounts were placed at the disposal of State Governments during these years? What amounts were actually spent by them?

The following amounts were sanctioned to the various State Governments. Position with regard to the utilisation of these funds is stated against each item:

TRADITIONAL KHADI

Year	Name of State	Amount of Grant		Amount of Loan	
		Sanctioned	Utilised by the State Govt.	Sanctioned	Utilised by the State Govt.
		Rs.	Rs.	Rs.	Rs.
1954-55	..	..	..	..	..
1955-56	(1) Pepsu	..	..	4,33,000	4,33,000
	(2) Madras	..	..	6,00,000	6,00,000
	(3) Assam	..	..	12,300	Information awaited.
1956-57	(1) Punjab	5,000	..	1,06,800	The sanction could not be acted upon and hence it was cancelled.
	(2) Madras	21,410†		44,845*	

†The sanction for Rs. 4,535 could not be acted upon. Rs. 4920·64 utilized. Information for Rs. 11,954·36 is yet awaited.

*Rs. 9,000 returned. The sanction for Rs. 18,970 could not be acted upon. Rs. 4920·64 utilized. Information for Rs. 11,954·36 is yet awaited.

AMBAR CHARKHA PROGRAMME

Year	Name of State	Amount of Grant		Amount of Loan	
		Sanctioned	Utilised by the State Govt.	Sanctioned	Utilised by the State Govt.
		Rs.	Rs.	Rs.	Rs.
1954-55	..	..	..	..	..
1955-56	..	..	..	..	..
1956-57	(1) Punjab	26,400	23,044	..	..
	(2) Pepsu	66,000	..	..	..
	(3) W. Bengal	13,000	13,000	65,000	..
	(4) Mysore	26,400	..	41,000	..
	(5) Madras	66,000	34,135	60,000	57,081
		26,000	11,467	1,00,000	1,00,000
		35,600	20,300	..	..
	(6) U. P.	65,000	..	24,000	..

NOTE : The figures in part 'B' of the Table have been furnished from the records available in this Ministry and are subject to verification by audit. For this purpose the audit require certain files which have since been made available. Discrepancies, if any pointed out by audit, will be communicated separately.

PART—C

A break-up of grants during these years to State Governments, private parties, co-operative societies, etc.

The amount shown in Part A of the Table less the amount shown in part B of the Table was given to the private parties, co-operative societies and the State Boards. For purposes of disbursement of funds all non-governmental agencies, such as registered institutions, co-operative societies, statutory State Boards etc. have been taken to fall under a single category, viz. private parties.

PART—D

On what date the Khadi and Handloom Boards were separated?

At no time was there a combined Board for khadi and other handloom cloth. The All-India Handloom Board and the All-India Khadi and Village Industries Board were set up by resolutions on the 25th October, 1952 and 14th January, 1953 respectively.

A. ZAMAN,

Joint Secretary.

NEW DELHI:
3th April, 1958.

APPENDIX VI

Note from the Ministry of Commerce and Industry giving the amounts that the Institute of Art-in-Industry was spending annually and how much was raised by it from other sources and how much was contributed by the Central and State Governments under sub-head A. 7—Grants-in-aid to the Indian Institute of Art-in-Industry, Note 9, Grant No. 2—Industries, Appropriation Accounts (Civil), 1953-54.

Aims and Objects of the Institute:

The Indian Institute of Art-in-Industry was established in Calcutta on the 1st May, 1945 on the model of the British Council of Industrial Designs, London.

It is an organisation for bringing about co-operation between industrialists and artists for the application of art to industries in such matters as industrial design, packing of goods, display for sale, advertisements, etc. The Institute also undertakes survey of traditional designs in Indian crafts, the holding of exhibitions and competitions, publication of suitable literature and also awards, scholarships and prizes to artists.

A brief account of the constitution, working, etc. of the Institute is given below.

Constitution:

A Council and an Executive Committee have been set up to assist the Institute in its work. The Council meets once each year, while the Executive Committee meets more frequently. Besides, the Institute holds an annual General Meeting of its members.

In earlier stages, the Institute was predominantly European in character. From the year 1948-49, the Institute came entirely under Indian control, so far as its staff was concerned. Its Council and Executive Committee are now predominantly Indian and include representatives of the Central Government and some of the State Governments, representatives of reputable Indian industrial firms, and eminent artists.

The Government of India had nominated representatives on the Council and the Executive Committee from 1947-48. The following representatives are now on the Council and the Executive Committee of the Institute since 1956-57:—

1. Shri A. Mitra, I.C.S., Secretary to the Government of West Bengal, Commerce and Industries Department, Calcutta, who represents the West Bengal Government also.
2. Shri A. Zaman, I.C.S., Joint Secretary, Ministry of Commerce and Industry, New Delhi.

3. Shri Nandlal Bose, Shanti Niketan, Bolepur, West Bengal.
4. Shri P. C. Sinha, Honorary Secretary, Calcutta Art Society, Calcutta.

The Institute runs a permanent display centre and museum which has an outstanding collection of textiles etc. and organises exhibitions and issues periodicals and other literature on the subject, and conducts research etc. It is now expanding its activities on the lines of the Council of Industrial Design in the U.K.

The Institute has been receiving grants from the Government of India since 1945-46. A statement (year-wise) showing the grants given by the Central Government and the amounts received from State Governments and other sources since 1947-48, is enclosed. The non-Government sources of income are membership subscriptions (about Rs. 36,000 annually), receipts from publications, exhibitions, etc. and grants by private bodies. It will be observed that except in 1956-57 the Central Government's contribution to the income was less than 50 per cent. In 1952-53 and subsequent years the grant was made on the basis that it would not be more than the amounts collected from other sources excluding the State Government. In 1956-57 the Institute launched an expansion programme to widen the scope of its activities. The Central Government therefore agreed in consultation with the All India Handicrafts Board to meet a larger share of the total resources required, to finance specific activities, as it was a developmental expenditure.

At the end of 1956-57 the Institute had a closing balance of Rs. 89,147-1-4. Excluding a sum of Rs. 11,658-2-0 out of this which is invested in a staff benefit fund, the actual liquid assets were only about Rs. 75,000. In connection with the accounts for 1954-55 Audit had raised an objection in a draft audit para that the grant was not justified in view of the balances which had accumulated with the Institute. This point was fully examined and it was urged on behalf of Government that the scale of annual expenditure justified the Institute keeping a certain balance in reserve. Audit accepted this view.

The utilisation of the grants is fully set out in the annual accounts. A sum of Rs. 34,000 is now being spent on salaries as against Rs. 1,12,000 (excluding salaries of special staff for publications, survey, etc.) in 1948. The expenditure on salaries was brought down to its present level in 1950-51. The other items of expenditure are publications, exhibitions, survey, museum, etc. The members appointed by the Central Government on the Executive Committee are associated with the programme of the Institute for its activities.

It would appear from the foregoing that the Institute has been making good progress and the grants made to it were properly utilised.

A. ZAMAN,
Joint Secretary.

NEW DELHI;
Dated the 18th March, 1958.

Statement showing the amount sanctioned by the Central Government, amount received from State Governments and other sources since 1947-48

Year	Income			Total income	Total expenditure	Difference (--) Saving (+) Excess	REMARKS
	Central Govt. grants	State Govt.	Other sources				
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
1947-48	1,25,000	38,000	1,25,014	2,88,014	3,69,189	(—) 81,175	
1948-49	1,00,000	38,500	84,025	2,22,525	1,51,563	(+) 70,963	
1949-50	79,000	24,500	69,264	1,72,764	85,861	(+) 86,903	
1950-51	49,310	5,500	58,715	1,13,525	1,00,000	(+) 13,577	
1951-52	47,660	8,000	52,337	1,07,997	72,073	(+) 35,924	
1952-53	40,605	13,520	58,279	1,12,404	92,746	(+) 19,658	
1953-54	34,240	11,500	70,700	1,16,490	1,10,627	(—) 5,863	
1954-55	34,160	11,500	59,097	1,04,857	95,696	(—) 9,161	
1955-56	25,000	5,000	72,078	1,02,078	74,259	(—) 27,819	
1956-57	* 78,153	10,000	38,739	1,26,891	1,01,107	(+) 25,784	*During 1956-57 a sum of Rs. 1 lakh was sanctioned to the Institute of Art-in-Industry. The Institute refunded a sum of Rs. 21,847/- due to non-utilisation.

APPENDIX VII

No. HC-44(1)/56

Note from the Ministry of Commerce and Industry pursuant to action taken on para 71 of the Fifteenth Report regarding paper imported on Government Account.

Disposal of balance of stocks of 136 tons:

According to the stock account, the balance of stocks of paper with the agents should be 19 tons. The actual balance was, however, 35 tons, (this discrepancy being due to minus balances arising out of the firm taking the net weight into stock account and selling on the basis of nominal weight given in ream packings in regard to certain items). The quantity of 35 tons has already been contracted to be purchased by a party in Bombay, who has not, however, lifted the stocks. This party deposited a sum of Rs. 14,000/- with the agents. A further sum of Rs. 3,000/- has been realised recently towards the sale price by the firm. The agents, however, have not credited this sum to Government account and have been withholding it against amounts claimed by them from Government. Necessary action is being taken to recover the amount in consultation with Ministries of Law and Finance. As the party has not lifted the stock so far, the question of disposal of the stock to somebody else after giving the due notice to the above mentioned party is also under consideration of Government.

Further loss on account of damage by white ants:

The further loss on account of damage by white ants etc., after May, 1951, was Rs. 9,295/4/7, the quantity of paper so damaged is about 13 tons. Damage was also reported of further quantity of about 4 tons of paper but the loss on account of this damage could not be assessed separately, as this stock was sold along with some sound stocks. The loss incurred on the sale of these 4 tons of damaged paper together with sound stocks at reduced rates both weighing about 25 tons, was Rs. 4,079/13/11 bringing the total loss to Rs. 13,375/2/6. This loss has been calculated on the difference between the book value and the actual proceeds of sale.

As the agents were not willing to reimburse or even share a portion of the loss so far sustained by Government on account of the damage by white ants etc., it was mutually agreed that the Government's claim should be referred to arbitration along with the agent's claim for storage charges. The arbitrators in their award have dismissed the claim of the Government.

B. B. SAKSENA,
Joint Secretary.

Dated the 8th October, 1957.

APPENDIX VIII

No. 17 (24)-CT (A)/55

New Delhi dated the 14th August, 1957

Note from the Ministry of Commerce & Industry pursuant to action taken on para 28 of the Sixteenth Report regarding purchase and distribution of Standard Cloth.

1. (a) The following payments have already been made in full to the various States etc., out of the amount standing to the credit of the Standard Cloth Equalisation Fund during 1954-55:

	Rs.
(i) Payments to West Bengal	4,53,722
(ii) Payments to Assam	2,26,570
(iii) Payments to Madhya Bharat	2,81,903
(iv) Payments to Sirohi State	20,924
(v) Payments to Balsan State	1,443
(vi) Payments to Baghalkhand States	19,999
(vii) Payments to Sirmur State	14,921
(viii) Payments to Now Gong	3,528
(ix) Payments to Sikkim State	12,422

(b) The amounts adjusted are as follows:—

(x) Loss on account of damage to 575 bales of standard cloth shipped per c.c. Jayant since written off ..	Rs. 3,84,408-0-0
Payment of hire charges made to carriers, viz., I.S.I. Ltd., Bombay during 1954-55. ..	Rs. 30,406-0-0
(xi) Loss of 4 bales of Standard cloth despatched by Messrs. Maheshwari Cotton Mills Ltd. Ahmedabad to the Mayurbhanj State. This has been adjusted during 1954-55 by the Accounts Office under suspense debit. ..	Rs. 3,407-10-0
(xii) 1. Payment made to I.S.I. Ltd., on account of cost of suit for recovering freight charges during 1954-55. ..	Rs. 8,535-0-0
2. Payment made during 1954-55 to the solicitor in the case of I.S.I. Ltd., for pocket expenses for appearing in the court. ..	Rs. 77-0-0

3. Payment made to the carriers
M/s. I.S.I. Ltd., during
1955-56 for cost suit. .. Rs. 2,000-0-0

II. The amount still outstanding for adjustment is as under:—

- (xiii) Payment to the undivided Government of Bengal by way of handling and freight charges on Standard cloth consignments. The actual amount due to them is not known but the same is expected to be about Rupees 10 lakhs. .. Rs. 10,00,000-0-0

2. Other Items (Item No. X)

On behalf of the Government of India, the Textile Commissioner entered into a contract on 20th January, 1944 with the Indian Shipping Industry, Bombay, freight contractors for the transport of Standard Cloth by country craft from Bombay to certain ports, South of Bombay. From 25th February, 1944 the Company received 575 bales of Government Standard Cloth from the Textile Commissioner, to be carried to Cochin and Alleppey in their country craft "Jayant". The country craft left Bombay on 15th March, 1944 but within 15 miles of its journey South-wards, it developed a leak. Government suffered a loss of Rs. 3,57,000 as a result of the damage to the above 575 bales. The security deposit of Rs. 1 lakh by the Company was withheld to set off against the loss.

The case, however, was taken up by the party concerned to the High Court of Bombay, and it was adjudged that the loss or damage was due to an act of God, *force majeure*, and the dues should be paid to the Company.

The following amounts were involved in the transaction:—

- (a) Loss on account of 575 bales of Standard Cloth. .. Rs. 3,84,408-0-0
(b) Legal charges incurred by Government. . Rs. 77-0-0
(c) Cost of suit to be paid to the Carriers under Bombay High Courts Decree. .. Rs. 8,535-0-0

Sanction for the last two items has already been issued *vide* this Ministry's letter No. 30(12)-CT(A)/54, dated the 18th November, 1954 and necessary payments have been made. These form part of payments against item No. XII. The Security Deposit has also been returned.

Hire charges to the extent of Rs. 30,429-13-8 had been sanctioned *vide* this Ministry's letter No. 40(5)-CT(A)/54, dated the 9th July, 1954. The Indian Shipping Industries Ltd., however, claimed Rs. 30,406-5-6 only for their four outstanding bills for freight charges inclusive of interest thereon upto 30th June, 1954. This was paid in full settlement of their claims against the sanctioned amount of Rs. 30,429-13-8. No further payment is due on this account.

Item No. (XI).—Necessary sanction regarding the writing off irrecoverable loss of Rs. 3,407-10-0 for 4 bales of Standard Cloth despatched by M/s. Maheshwari Cotton Mills Ltd., Ahmedabad, to the Mayurbhanj State has already been issued *vide* this Ministry's letter No. 30 (9)-CT(A)/54, dated the 20th October, 1954, and this amount has been adjusted during 1954-55.

Item No. (XIII).—As regards the amounts due on account of handling and freight charges to the Government of undivided Bengal, the Textile Commissioner, Bombay in consultation with the Accountant General, Food, Rehabilitation and Supply has advised the claimants that these claims should be submitted in the proper form with the relevant audit certificates, etc., before the amount can be refunded.

3. It may be pointed out that according to the Decentralisation Proposals accepted by the Ministry, the Centrally Administered Areas were to be paid either the loss sustained by them in working out the Standard Cloth Scheme or the credit accruing in their favour in the Equalisation Fund, whichever was higher. In return, the States were to return to the Centre the Stamping Fee collections made by them under the Control Scheme. According to the information originally received from the Delhi Administration, they had collected a sum of Rs. 4,35,105 as Stamping Fees. On this basis, a debit of Rs. 2,37,115 representing the excess Stamping Fees over Credits, was passed on to them in December, 1950. Later correspondence, however, reveals that Delhi Administration had actually collected and credited in favour of the Deputy Accountant General, (Industry and Supply), Bombay a sum of Rs. 16,58,003 which according to them, included the stamping fees. The Deputy Accountant General (Industry and Supply), Bombay, has, however, since verified that this amount represented the cost of Standard Cloth supplied and not the stamping fees. The matter at present is under correspondence between Delhi Administration and Accountant General (Central Revenues), Delhi.

In this connection, it may be stated that the claims of undivided Government of Bengal and Delhi Administration referred to in item No. XIII of para. 2 and para. 3 above respectively, are the only outstanding claims which have not yet been settled.

The balance left in the Standard Cloth Equalisation Fund at the close of the accounts of December, 1956 is Rs. 1,10,89,837-5-6 (Credit) only.

This note has the approval of the Deputy Accountant General (Production, Commerce and Industry), New Delhi.

S. RANGANATHAN,
Secretary.

APPENDIX IX

No. ME.Ind.31 (35) /57

New Delhi, the 24th March, 1958 ,

Note from the Ministry of Commerce & Industry pursuant to action taken on paras 107 and 108 of the Sixteenth Report regarding Nahan Foundry.

Based on the recommendation of the Public Accounts Committee made in para. 107 of its Sixteenth Report, 1955-56, Government set up an Expert *Ad Hoc* Committee on the 11th January, 1957 to advise on the steps necessary to modernise the Nahan Foundry to diversify its production and to make it a more economic unit. A copy of the Memorandum constituting the Committee is enclosed. This Committee submitted its report to this Ministry on the 6th August, 1957. The recommendations of the Committee are being examined in consultation with the Ministries of the Government of India concerned. As soon as decisions are reached on these recommendations, a report of the findings of the Committee, together with the decisions of Government thereon, will be furnished to the Public Accounts Committee.

2. The Public Accounts Committee had, in para. 108 of its Report, stated that there was an imbalance between the total number of office workers (131) and the number of manual workers (303) employed in the Foundry. The Committee also observed "they see no strong justification for the retention of such a large complement of office staff in any circumstances, and especially so when the foundry was running at a continued loss and there was not much work to keep it fully occupied".

The above comments of the Public Accounts Committee were referred to the Foundry Advisory Committee, which has been set up to advise on the day-to-day working of the Foundry, for its views together with supporting facts and figures. The Committee has since carefully considered this question, and submitted its views to this Ministry. According to the Committee, against the present strength of technical and non-technical labour numbering 468, the establishment staff is only 84 in number. Even this figure includes about 40 persons of the 'amenities category', like canteen staff, medical personnel, watch and ward staff, etc., who are not directly connected with administrative work. Thus, the office establishment as such numbers only 44. Besides looking after the affairs of the foundry proper, this office staff is also responsible for looking after the establishment work of the selling organisation numbering 299.

Thus, there does not seem to be any imbalance as pointed out by the Public Accounts Committee.

3. Statements showing the distribution of personnel in the Nahan Foundry as on 30th January, 1957 is enclosed.

A separate statement showing the strength of staff at various periods since 1948, and out-turn of the Foundry is also appended.

4. This note has the approval of the audit.

N. SUBRAHMANYAM,
Joint Secy.

No. 18(8)NIDC/56

GOVERNMENT OF INDIA

MINISTRY OF COMMERCE AND INDUSTRY

New Delhi, the 11th January, 1957

MEMORANDUM

SUBJECT:—*Expert ad hoc Committee to survey the manufacturing capacity as well as the possibility of modernising the Nahan Foundry Private Limited, Nahan, Himachal Pradesh.*

In pursuance of the recommendations of the Public Accounts Committee made in para. 107 of its Sixteenth Report for the year 1955-56, the Government have decided to set up an Expert Committee to advise on the steps necessary to modernise the Nahan Foundry, diversify its production and to make it a more economic unit. The Committee will consist of:—

1. Shri G. B. Kotak, Navsari Building, Dadabhai Naoroji Road, Fort, Bombay.—*Chairman.*
2. Shri H. M. Chatterjee, Joint Director, Railway Equipment, Railway Board, Ministry of Railways.—*Member.*
3. Shri K. C. Daveswar, P. & T. Liaison Officer, Ministry of Communications (P. & T.).—*Member.*
4. Shri S. S. Roy, Deputy Director of Inspection, D.G.S.&D., Ministry of Works, Housing & Supply.—*Member.*
5. Shri C. J. Shah, Development Officer, Development Wing, Ministry of Heavy Industries.—*Member.*
6. Shri S. D. Joshi, General Manager, Nahan Foundry.—*Member-Secretary.*

2. In making its recommendations, the Committee will specially consider the manner in which the foundry can meet the needs of the different Central Government purchasing departments to the maximum extent.

3. The Committee is requested to complete its investigation and submit its report to Government within 3 months.

(Sd./-) K. V. SESHADRI,
Under Secretary to the Government of India.

To

1. All members of the Committee.
2. Ministry of Railways (Rly. Board).
3. Ministry of Communications (P.&T.).
4. Ministry of W.H.&S. (D.G.S.&D.).
5. Secretary, N.I.D.C.
6. General Manager, Nahan Foundry, Nahan.
7. All members of the Board of Directors of Nahan Foundry.
8. Parliament Secretariat.

*Statement showing the position of personnel of Nahan Foundry
(Private) Ltd. as on 30th January, 1957.*

Foundry	..	200
Maintenance & Machine Shop	..	126
Smithy	..	56
Wood Working	..	12
Building	..	13
Reserve Beldars & Extra Workers	..	19
Printing Press & Others	..	6
Distribution and Generation	..	20
Supervisory	..	16
<hr/>		
Office Administration:	..	3
Ministerial	..	41
Personnel under amenities	.	40
<hr/>		
<i>Agencies/personnel:</i>		
Organiser Agencies	..	1
Clerks at Ambala	..	2
Inspectors	..	3
Sub-Inspectors	..	3
Agents & Sub-Agents	..	69 (a)
Technical and Others		77
Casual for the season only	..	144
<hr/>		
<i>Total No. of Agencies:</i>		
Paid	.	71 [con- trol- led by 69 agents and sub-agents as given at (a) above]
On Commission basis	..	51

APPENDIX X

COUNCIL OF SCIENTIFIC & INDUSTRIAL RESEARCH

Note from the Ministry of Education and Scientific Research pursuant to action taken on para. 98 of the Sixteenth Report regarding definition of powers and functions of the Council of Scientific and Industrial Research by a specific statute.

1. The Public Accounts Committee in its 16th report for the year 1955-56 recommended that the Government might "take the first convenient opportunity to embody the functions of the Council of Scientific and Industrial Research in a statute". It is the view of the Committee "as a matter of general principle, that where it is desired that continuing functions involving substantial expenditure, should be exercised by autonomous bodies like the Council of Scientific and Industrial Research the powers and duties to be exercised should be defined by specific statute". It would appear from the recommendation of the Public Accounts Committee that the Council of Scientific and Industrial Research may continue as an autonomous body but only its functions need be embodied in a statute.

2. The idea behind the recommendation of the Public Accounts Committee seems to be that there should be greater parliamentary control over the activities of the CSIR in view of the fact that the amount of expenditure has become large.

3. The Government of India established in 1935 the Industrial Intelligence and Research Bureau with the object of "making a beginning and laying the foundation on which a research organization suitable for the needs of the country could later be constructed". This was also like a department of government. In 1940, the Board of Scientific and Industrial Research was set up also as a wing of Government. In 1942, a fund called the Industrial Research Fund was created by Government and the Council of Scientific and Industrial Research was constituted by a resolution (Department of Commerce No. 148-Ind. (157)/51, dated the 26th September, 1942) as an autonomous body under the Registration of Societies Act XXI of 1860 to administer the fund.

4. Even though the CSIR is an autonomous organization set up under the Registration of Societies Act, the authority and control of the Government of India is quite close.

5. The Rules and Regulations and Bye-laws of the Council are subject to the approval of Government and they provide for sufficiently close control of its functions. The Comptroller and Auditor General of India audits its accounts just as he does for other departments of Government.

6. The Governing Body of the Council of Scientific and Industrial Research is itself a high-level body with the Prime Minister as its President and the Minister for Natural Resources and Scientific Research as its Vice-President. There are on its roll 5 Cabinet Ministers including the Finance Minister and some of the top-ranking industrialists and scientists in the country. Besides there are also States Ministers, Members of Parliament and a representative of the Ministry of Finance on it.

7. As regards control on expenditure, a Joint Secretary of the Ministry of Finance acts as F.A. to the Council and is also a member of the Governing Body. The Secretariat works in close consultation with him and his concurrence is taken in respect of financial matters. A whole-time Under Secretary of the Ministry of Finance is also attached to the Council as Attached Financial Adviser and is stationed side by side with the Secretariat of CSIR to facilitate close collaboration and day-to-day contact.

The F.A. is also a member of the Finance Sub-Committee set up by the Governing Body. The Finance Sub-Committee is now meeting once every quarter, but may meet oftener, if necessary.

8. Whatever liaison, co-ordination and control is desired from the point of view of the Government, it is exercised through the Ministry of Natural Resources and Scientific Research. The present system permits both efficient and expeditious working which are essential for scientific research and also desirable control by the Government both in respect of overall administrative policies, expenditure and accounts.

9. Autonomous organizations are set up by Government to carry out specific functions. These may be either corporations incorporated under the Company's Act or societies set up under the Registration of Societies Act or by statutes passed in Parliament.

10. Institutions for education and training and Universities are generally established by statutes as it is one of their functions to award degrees.

11. Organizations like the Rubber Board, Coffee Board, Central Cotton Committee, Indian Oil Seeds Committee, Indian Lac Cess Committee etc. are also set up by statutes. This is essential because these bodies have the specific function of levying cess on the commodity concerned and the utilization of the cess for specific purposes. These are matters which require statutory authority. Research institutes are sometimes set up by these boards and committees but research is only part of their functions. The University Grants Commission which was recently set up is also a statutory body. Here also a statute was necessary because the Commission had to be empowered to determine and maintain standards of teaching, examination and research in universities which are themselves autonomous and statutory. The Commission can demand information from any university regarding financial position etc., and it has also powers of inspection.

12. A perusal of the provisions of the Rubber Act (XXIV of 1947), the Coffee Act (VII of 1942) and similar acts does not indicate any closer direct parliamentary control or accountability to Parliament than what is provided in the Rules and Regulations and Bye-laws of the Council of Scientific and Industrial Research.

13. The Council of Scientific and Industrial Research neither awards degrees nor has the function of collecting cess. There appears to be no instance of an organization brought into existence by a statute in which either of these two functions is not incorporated.

14. The Indian Council of Agricultural Research, the Indian Council of Medical Research and the Indian Standards Institution are also registered under the Registration of Societies Act.

15. An example of an autonomous organization registered under the Registration of Societies Act exercising certain statutory functions embodied in an act of Parliament is the Indian Standards Institution. This organization is authorised to issue standard certification marks in accordance with an act passed in Parliament. Similarly, if necessary, a statute could be enacted embodying the functions of the Council of Scientific and Industrial Research. The pros and cons of such a measure will have to be considered carefully as a statute carries with it certain legal implications.

16. The *raison d'être* of establishing the Council of Scientific and Industrial Research as an autonomous body was that research should not be subject to governmental procedure and red-tape as it is not likely to expedite work. Research investigations and tests should be carried out by an independent organization because it is not only the Government that is interested in it but also industry. If it is placed entirely under governmental control, the objective nature of such work cannot be secured. Even though the expenditure incurred by the Council of Scientific and Industrial Research has increased substantially, the basic reasons for having the organization autonomous continue to exist.

17. If the CSIR becomes a statutory body, the functions and activities of the Council would at once become justiciable, and anyone who is not satisfied for any reason may go to a court of law. This would introduce considerable rigidity in its working. Every conceivable function may have to be incorporated in the statute. Such a thing would be difficult for an organization specially meant for undertaking pioneering activities.

18. The Public Accounts Committee has, perhaps, in its mind certain lacunae in that the activities and expenditure of the Council are not accountable to Parliament. The Rules and Regulations of the Council have recently been revised and made more comprehensive to cover the working of a large organization that the Council has grown into and now include the presentation of an annual report (administrative and technical), accounts and audit report to Government.

19. An account of the work and activities of the Council and the national laboratories is included regularly in the annual report of the Ministry of Natural Resources and Scientific Research laid before

Parliament every year. The Council generally follows all Government rules, regulations and instructions; and its accounts are audited by officers deputed by Comptroller and Auditor General in the same manner as they do other Government accounts; and all audit objections are examined and answered, as necessary. The annual technical report and all publications issued by the Council of Scientific and Industrial Research are made available to the library of Parliament. Already, the provision made for the CSIR, is included in the Demands for Grants under the Ministry of Natural Resources and Scientific Research. If desired, the administrative report and accounts of the CSIR may be placed before Parliament for information. It is thus felt that all essential requirements which the Public Accounts Committee might have in view are now met.

20. The subject is, however, for the consideration of the Governing Body.

APPENDIX XI

Note from the Ministry of External Affairs pursuant to action taken on para 38 of the Sixteenth Report regarding purchase of furniture without tenders.

Question. (i) What is the date on which the extended premises of the Indian High Commission were taken over?

Answer.—Three premises were leased in 1948 as per details given below:—

- (a) 55, Jermyn Street for 21 years from 1948.
- (b) 9, Clifford Street for 7 years from August, 1948.
- (c) 76, South Audley Street for 99 years from 1948.

Question. (ii) What is the date on which the furniture was purchased?

Answer.—The furniture was purchased on the following dates:—

- (a) 14-7-1948.
- (b) 16-11-1948.
- (c) 30-11-1948.
- (d) 8-2-1949.
- (e) 4-4-1949.
- (f) 13-4-1949.

Question. (iii) What is the date on which additional staff was sanctioned in the High Commission, London?

Answer.—Sanctions for the staff were issued on the following dates:—

- (a) 17-1-1948.
- (b) 22-3-1948.
- (c) 13-4-1948.
- (d) 17-5-1948.
- (e) 1-6-1948.
- (f) 21-6-1948.
- (g) 26-6-1948.
- (h) 5-7-1948.
- (i) 11-8-1948.
- (j) 16-8-1948.
- (k) 6-9-1948.
- (l) 15-7-1949.

Question. (iv) What was the justification in by-passing the procurement and inspection agency of the India Stores Department, London in the matter of purchase of this furniture?

Answer.—The practice in London was to obtain supplies of furniture from a few firms who were associated with the High Commission since 1930. Except for a solitary instance in 1937, when purchases for the India Audit Office were made through the India Stores Department, it was not the practice to ask the India Stores Department for advice regarding purchase of furniture for the use of the High Commissioner's office, or for furniture to be inspected by that Department. The supply situation in the U.K. during the years 1948-49 was very unsatisfactory and delays in delivery were frequent. In view of this and in the interests of economy, it was decided that solidly built furniture of the general office type in use in the U.K. would suffice for the new leased premises. Price lists and quotations received from some of the firms were scrutinised and a schedule of furniture was thus drawn up together with competitive prices, based on the schedules originally approved by the Government of India for adoption at the India House. The material chosen was oak as this was held to be most hard-wearing and easily available timber at that time and normally in use in the offices in the U.K. It was explained that there was no time to call for tenders and most of the information was obtained either by correspondence or as a result of telephone enquiries or from commercial pamphlets already available in the High Commission. Consequently, when the scheduled furniture had to be obtained urgently, the previous practice was followed and the India Stores Department was not consulted. There being shortage of some of the items in the market, they were indented from sources where supplies could easily be obtained. In view of the urgency of the demand, it was considered that in the interest of public service, the supplies of these items might be obtained from available sources in bulk thus making possible the benefit of reduced cost by virtue of bulk purchases, even if competitive rates were not available for some of the items.

In fact, it was not necessary for the High Commission to purchase furniture for its use through the India Stores Department and to get it inspected by the latter. At a later stage, the Government of India also considered a proposal for the supply of standard quality furniture, equipment etc. to various Missions abroad through the agency of the India Stores Department, London and the India Supply Mission, Washington, but this proposal was dropped as both these offices were of the opinion that it would not be a feasible proposition to entrust this kind of work to them.

Question. (v) *Whether the furniture was purchased according to the prescribed scale? If so, what was that scale?*

Answer.—The furniture was in conformity with the scales of furniture current since the setting up of the High Commissioner's office in 1930. A statement showing the scale of standard furniture applicable to the High Commission for India, London, is attached.

K. RAM,
Joint Secretary.

ENCLOSURE-A.

STANDARD SUPPLY OF FURNITURE

GROUP I—*Heads of Department.*

- 1 Pedestal Desk 5' 3" x 3' 3" with six drawers
- 1 Table (1 drawer) 4' 6" x 2' 6"
- 2 Bookstands 2' 6"
- 3 Elbow Chairs with leather seats
- 1 Inkstand
- 4 Letter Trays
- 1 Waste Paper Basket
- 1 Paper Rack
- 1 Umbrella or Coat Stand
- 1 Foot Mat
- 1 Steel Cupboard or Cabinet

GROUP II—*Deputy Heads of Department.*

- 1 Pedestal Desk (6 drawers) 5' 3"
- 1 Table (1 drawer) 4' 6" x 2' 6"
- 1 Bookstand 2' 6"
- 3 Elbow Chairs with leather seats
- 1 Inkstand
- 4 Letter Trays
- 1 Waste Paper Basket
- 1 Paper Rack
- 1 Umbrella or Coat Stand
- 1 Foot Mat
- 1 Steel Cupboard or Cabinet

GROUP III—*Officers (Executive Officers).*

- 1 Pedestal Desk (4 drawers) 4' 6" x 2' 6"
- 2 Plain Chairs
- 1 Inkstand
- 2 Letter Trays
- 1 Waste Paper Basket

GROUP IV—Clerical Staff.

- 1 Desk (2 drawers) 4' 6" x 2' 6"
- 1 Ordinary chair
- 1 Inkstand
- 1 Waste Paper Basket

GROUP V—Typing Staff.

- 1 Typists Table (2 drawers) 4' x 2' 3"
- 1 Typists Chair
- 1 Waste Paper Basket
- 1 Paper Tray
- 1 Paper Rack

Departmental Registries.

- Steel Cupboards and Cabinets as required for Storage of **Files**
and documents
 - Visible Index Systems
 - Card Index Cabinets
 - Cupboards for storage of Stationery, etc.
 - Steel Shelving
-

APPENDIX XII

Note from the Ministry of External Affairs pursuant to action taken on para 47 of the Sixteenth Report regarding budgeting and financial control of Indian Missions abroad.

The principles underlying the refixation of foreign allowances on the basis of the recommendations of the Foreign Service Inspectors are explained below:—

2. For each grade of officers serving abroad, reasonable expenditure of a family of average size on food, clothing, servants, miscellaneous household requirements, laundry, electricity, water and fuel; and (for non-representational staff) transport is assessed by the Inspectors after an on-the-spot study of the conditions of living and the prevailing prices of foodstuffs and other essential supplies as well as the cost of services, etc., and scrutiny of the statements of average monthly expenditure of the India-based personnel at each station. From this is deducted an estimated expenditure on these items by an officer of corresponding grade serving in Delhi with due allowance for the fact that his emoluments are not exempt from income-tax and he has to pay rental for accommodation and furniture. The difference represents compensation for extra cost on these items at the foreign station. To this is added a suitable percentage to cover extra expenditure on items other than those mentioned above. In the case of non-representational staff, this constitutes the foreign allowance.

3. For representational officers, an amount determined on the basis of requirements is further added for representational purposes including expenditure on entertainment. Their foreign allowance is thus the sum of the compensatory element as calculated in para 2 *plus* the amount earmarked for representational purposes.

4. Foreign allowances for all stations are fixed uniformly on the above pattern. The scales for domestic servants, both Indian and local, required to be maintained by representational officers of various ranks are also specifically laid down and expenditure on this account is admissible on the basis of certificates of employment in the case of an Indian servant and actual expenditure incurred on whole time local servants. Where an officer does not maintain the full complement of the domestic staff provided for him, a corresponding deduction is made from his foreign allowance.

5. In respect of the amount earmarked for representational purposes, all officers, including Head of Mission, are required to keep a record of the particulars of the invitees and the fare offered etc. in order to enable Government to satisfy themselves that the amount included in the frais/foreign allowances for this purpose are properly utilised. Such statements are scrutinised by Heads of Missions in regard to their officers. Heads of Missions, therefore, are required

to submit statements to the Ministry every quarter. Inspectors scrutinise the statements of all officers, when they visit a mission next.

6. Although the Foreign Service Inspectors, during the first round of inspections, have been mainly concerned with the question of revision of allowances, they have also been looking into specific administrative problems requiring an on-the-spot investigation or urgent attention, e.g., ceiling rentals for residences; daily allowance rates, scales of pay of local staff; and maintenance of buildings, furnishings, gardens, etc. In the more recent inspections, the Inspectors have also looked into the staff position of our Missions and have, wherever necessary, made recommendations with a view to making the most economic use of man power. In addition, the Accountant accompanying the inspecting teams also generally gives advice on the spot with a view to improving the system of maintenance of accounts.

7. This note has been seen by Audit.

R. K. TANDON,
Joint Secy.

The 15th March, 1958.

APPENDIX XIII

Note from the Ministry of External Affairs pursuant to action taken on para 41 of the Twenty-third Report regarding Hospitality Fund of the Ministry of External Affairs.

Revised Ceilings

Dinner:	.. Rs. 30 per head
Lunch:	.. Rs. 20 per head
Evening party:	.. Rs. 10 per head

2. The above ceilings include expenditure on cigarettes, cigars, hire of furniture, lighting, drinks, etc. and are to be taken as the maximum limit and the entertainment is to be done as economically as possible in the circumstances of the particular case. Expenditure on lighting should be only necessary for parties held on the lawns in summer.

Normally functions are to be held at the Hyderabad House.

The rates set out above have been approved by the Ministry of Finance and come into effect on 8th August, 1957.

Note:—The previous decision of the Government not to serve liquor at official parties has since been modified to the extent that light wines and aperitifs can be served but no stronger drinks, like spirits can be served.

R. K. TANDON,
Joint Secy.

The 10th August, 1957.

APPENDIX XIV

Statement from the Ministry of Finance on the prescribed form of outstanding demands from the books of the Department of Revenue at the end of each of the last five financial years State-wise wherever possible under Grant No. 29, Appropriation Accounts (Civil), 1953-54 and 1954-55.

The statements are annexed herewith and numbered as Statement 'A' and Statement 'B'. As the charges of the Commissioners of Income-tax are neither co-extensive nor coterminous with State boundaries and as there have also been realignments of State boundaries with effect from 1-11-1956, the figures given are on the basis of the Commissioners' Charges.

Statement 'A' gives the analysis of the demand of taxes outstanding as on 1-4-1957. Item (e) thereof puts the figure of other outstanding demands at 108·2506 crores. The further break-up of this figure is given below:—

(i) Amount due from companies under liquidation	..	5·9067
(ii) Amounts in respect of which penalties under Section 46 have been levied. [This is exclusive of the figure mentioned at (i) above and items (a) to (d) of Statement A]	..	3·3579
(iii) Outstanding for other reasons of which—		
(a) probably irrecoverable	..	6·9455
(b) balance recoverable—		
(i) fallen due before 31-3-1957	..	39·6732
(ii) Not fallen due before 31-3-1957	..	52·3673
		<hr/> 108·2506 <hr/>

STATEMENT A

Analysis of the Demand of Taxes on Income outstanding on 1-4-1957

(I.T., E.P.T. & B.P.T.)

(Figures in thousands)

	Bombay Central, City, North & South	West Bengal including Calcutta Central	Madras	Uttar Pradesh	Bihar & Orissa	Mysore & Travancore- Cochin	All Other charges	TOTAL
* (a) Demand in respect of which refunds due would be adjusted in due course	40,480	86,021	22,663	4,522	45	101	14,928	1,68,760
(b) Demands in respect of persons who have left India	21,123	17,490	1,704	7,394	2,251	765	21,849	72,576
(c) Demands in respect of which certificate or attachment pro- ceedings are pending, other than those at (a) & (b) above	2,91,786	4,18,750	39,666	65,798	29,569	18,637	1,79,771	10,43,977
(d) Demands held over for recovery, pending appeals etc.	81,465	1,09,153	9,837	14,191	1,400	2,667	33,818	2,52,531
(e) Other demands	4,56,030	3,13,730	73,952	43,168	32,802	33,106	1,79,718	10,82,506
Total outstanding demand on 1-4-57	8,40,884	9,45,144	1,47,822	1,13,507	66,067	55,276	4,30,084	26,20,350
Misc. items outstanding (not included in the above) of which analysis is not available	17,950	14,989	3,130	5,377	1,830	1,122	8,586	52,984

* Against this item demand outstanding on account of 'amount pending settlement of DIT or other relief claims' has been shown.

STATEMENT B

Demand of Taxes on Income in All India outstanding for recovery on—(I.T., E.P.T. & B.P.T.)
(Figures in thousands)

	1-4-1949	1-4-1950	1-4-1951	1-4-1952	1-4-1953	1-4-1954	1-4-1955	1-4-1956	1-4-1957
1948-49 & earlier years									
1949-50 . . .	6,68,584	5,25,824	3,86,840	3,21,071	2,75,974	2,27,968	1,23,674		
1950-51 . . .	2,99,092	2,90,499	2,01,095	1,47,756	1,25,028	1,17,329	1,24,361		
1951-52 . . .	5,40,979	3,10,726	2,70,034	2,20,258	1,69,673	1,60,985	2,00,000		
1952-53 . . .		6,48,337	3,93,545	2,78,882	[2,22,917	[1,95,382	2,02,285		
1953-54 . . .			6,64,121	[3,50,881	[3,12,699	[2,41,932	2,09,049		
1954-55 . . .				6,95,365	3,67,420	2,87,654	2,28,574		
1955-56 . . .					5,79,338	3,18,517	2,73,202		
1956-57 . . .						7,46,005	4,07,544		
TOTAL . . .	15,08,655	17,75,386	19,15,635	20,14,213	20,53,049	22,95,772	26,20,350		
Misc. items outstanding. Year-wise break-up not available . . .	8,852	15,139	13,550	18,568	26,763	39,559	52,984		

Demand of Taxes on Income in Bihar & Orissa outstanding for recovery on—

(I.T., E.P.T. & B.P.T.)
(Figures in thousands)

	1-4-1949	1-4-1950	1-4-1951	1-4-1952	1-4-1953	1-4-1954	1-4-1955	1-4-1956	1-4-1957
1948-49 & earlier years	.		17,581	18,103	10,206	9,528	7,672	3,292	8,402
1949-50	.		13,465	7,773	4,676	2,754	2,181	1,510	2,465
1950-51	.		22,722	10,567	7,316	4,596	3,397	3,062	2,756
1951-52	.			18,862	13,899	10,742	9,694	8,520	8,574
1952-53	.				19,728	6,981	4,006	2,886	1,760
1953-54	.					22,744	12,647	3,244	2,953
1954-55	.						18,553	6,884	3,938
1955-56	.							10,838	5,429
1956-57	.								29,790
TOTAL			53,768	55,305	55,825	57,345	58,150	40,236	66,067
Misc. items outstanding.			1,217	1,199	1,165	1,176	2,019	1,567	1,830

Demand of Taxes on Income in Bombay (Central, City, North & South charges) outstanding for recovery on —

(I.T., E.P.T. & B.P.T.)
(Figures in thousands)

	1-4-1949	1-4-1950	1-4-1951	1-4-1952	1-4-1953	1-4-1954	1-4-1955	1-4-1956	1-4-1957
1948-49 & earlier years			1,77,760	1,32,984	1,14,442	93,974	73,476	60,106	14,871
1949-50			1,02,868	1,21,627	68,781	48,819	42,576	39,914	53,939
1950-51			1,98,682	88,424	84,247	62,076	48,971	67,146	69,415
1951-52				2,04,378	1,07,672	74,808	66,087	56,451	49,015
1952-53					2,14,250	1,23,486	99,645	67,904	62,710
1953-54						2,50,161	1,33,901	96,361	76,211
1954-55							2,27,929	1,17,116	93,862
1955-56								2,79,585	1,39,968
1956-57									2,80,893
TOTAL			4,79,310	5,47,413	5,89,392	6,53,324	6,92,585	7,84,583	8,40,884
Misc. items outstanding			3,098	5,769	3,265	3,854	4,457	9,580	17,950

Demand of Taxes on Income in Madras outstanding for recovery on—

(I.T., E.P.T. & B.P.T.)

(Figures in thousands)

	1-4-1949	1-4-1950	1-4-1951	1-4-1952	1-4-1953	1-4-1954	1-4-1955	1-4-1956	1-4-1957
1948-49 & earlier years .			46,302	38,630	32,783	14,572	7,848	4,701	3,980
1949-50			33,017	22,367	11,428	5,287	3,736	2,408	2,466
1950-51			54,262	30,490	19,862	17,897	5,993	6,119	6,513
1951-52				66,998	37,270	32,332	8,513	8,072	12,172
1952-53					80,819	34,690	37,604	18,664	18,459
1953-54						71,283	30,753	36,000	14,196
1954-55							35,281	18,093	12,872
1955-56								36,312	15,020
1956-57									62,144
TOTAL			1,33,481	1,58,485	1,82,162	1,76,061	1,29,728	1,30,369	1,47,822
Misc. items outstanding			597	1,647	1,481	1,721	2,620	2,847	3,130

Demand of Taxes on Income in Uttar Pradesh outstanding for recovery on—

(I.T., E.P.T. & B.P.T.)
(Figures in thousands)

	1-4-1949	1-4-1950	1-4-1951	1-4-1952	1-4-1953	1-4-1954	1-4-1955	1-4-1956	1-4-1957
1948-49 & earlier years.									
1949-50 . . .		₹ 51,334		33,687	33,169	37,706	28,181	18,925	14,876
1950-51 . . .		14,919		12,729	10,877	11,379	[8,945	6,876	6,898
1951-52 . . .		39,336		32,530	25,675	20,992	15,119	9,671	12,427
1952-53 . . .				₹ 42,033	30,772	17,050	21,992	16,424	7,933
1953-54 . . .					46,594	26,977	28,556	16,438	12,779
1954-55 . . .						34,269	20,648	13,983	11,993
1955-56 . . .							28,857	13,341	12,235
1956-57 . . .								42,054	27,570
									28,362

TOTAL . . .		1,05,589	1,20,979	1,47,087	1,48,373	1,52,298	1,37,712	1,35,073
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Misc. items outstanding		1,816	3,022	2,600	4,335	6,091	4,341	5,377
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Demand of Taxes on Income in West Bengal (including Calcutta Central) outstanding for recovery on

(I.T., E.P.T. & B.P.T.)
(Figures in thousands)

	1-4-1949	1-4-1950	1-4-1951	1-4-1952	1-4-1953	1-4-1954	1-4-1955	1-4-1956	1-4-1957
1948-49 & earlier years	.	.	3,41,569	2,66,227	1,57,899	1,33,791	1,09,485	1,02,029	69,534
1949-50	.	.	95,636	90,645	79,347	54,997	47,686	49,517	47,742
1950-51	.	.	1,75,778	1,16,796	1,03,259	89,472	70,779	54,063	50,538
1951-52	.	.	.	2,52,402	1,57,805	1,09,577	93,051	82,374	1,00,622
1952-53	2,15,763	1,14,609	99,164	93,788	76,887
1953-54	1,91,738	1,17,309	91,354	81,810
1954-55	1,67,329	93,423	97,792
1955-56	2,33,789	1,47,173
1956-57	2,73,046
TOTAL	.	.	6,12,983	7,26,070	7,14,073	6,94,184	7,04,803	8,00,337	9,45,144
Misc. items outstanding	.	.	1,423	2,398	2,746	4,617	7,440	14,307	14,989

Demand of Taxes on Income in Mysore and Travancore-Cochin outstanding for recovery on—

(I.T. E.P.T. & B.P.T.)
(Figures in thousands)

	1-4-1949	1-4-1950	1-4-1951	1-4-1952	1-4-1953	1-4-1954	1-4-1955	1-4-1956	1-4-1957
1948-49 & earlier years.									
1949-50 . . .				5,419	₹5,097	3,813	4,022	1,945	1,959
1950-51 . . .				2,893	₹2,555	₹2,756	2,569	1,994	1,954
1951-52 . . .				₹1,516	₹1,333	₹1,205	529	711	872
1952-53 . . .				6,760	₹2,595	₹1,507	1,310	982	1,119
1953-54 . . .					13,902	₹5,560	3,933	1,693	1,902
1954-55 . . .						24,759	7,010	3,594	2,630
1955-56 . . .							17,556	8,191	5,601
1956-57 . . .								22,757	13,068
									26,171
TOTAL . . .				16,588	25,482	39,600	36,929	41,867	55,276
Misc. items outstanding				20	58	81	252	271	1,122

Demand of Taxes on Income in all other charges outstanding for recovery on—

(I.T., E.P.T. & B.P.T.)
(Figures in thousands)

	1-4-1949	1-4-1950	1-4-1951	1-4-1952	1-4-1953	1-4-1954	1-4-1955	1-4-1956	1-4-1957
1948-49 & earlier years .			34,038	30,774	33,244	27,687	45,290	36,990	10,052
1949-50 .			39,187	32,465	23,431	21,764	17,335	15,110	8,897
1950-51 .			50,299	30,403	28,312	24,020	24,885	20,213	57,479
1951-52 .				56,904	43,532	32,866	22,270	22,559	22,850
1952-53 .					73,065	38,578	39,791	40,559	34,552
1953-54 .						1,60,411	45,152	43,118	38,781
1954-55 .							83,833	61,469	46,902
1955-56 .								1,20,670	59,316
1956-57 .									1,51,255

TOTAL .	1,23,524	1,50,546	2,01,614	2,45,326	2,78,556	3,60,688	4,30,084
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Misc. items outstanding	701	1,584	2,215	2,784	3,884	6,637	8,586
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APPENDIX XV

Note from the Ministry of Finance (Department of Revenue) indicating the causes of declining receipts and increasing expenditure based on the analysis of figures under Grant No. 29, Appropriation Accounts (Civil) 1953-54 and 1954-55.

The figures of total net receipts mentioned in the Civil Appropriation Accounts and Audit Reports for 1953-54 and 1954-55 referred to above are the net receipts after deducting the share payable to the States. The actual collections before deduction of the States' share for the years 1949-50 to 1956-57, States' share of collections and the cost of collections were as follows:

Year	Total actual collections	States' Share	Net	Cost of collections (Actual)
1949-50	159.66	45.74	113.92	2.01
1950-51	173.22	47.52	125.70	2.44
1951-52	187.62	52.86	134.76	2.70
1952-53	186.16	56.98	129.18	3.04
1953-54	164.37	57.29	107.08	3.24
1954-55	160.42	56.54	103.88	3.45
1955-56	170.28	57.15	113.13	3.81
1956-57	203.69	61.16	142.53	4.26

The above statement shows that there had been a gradual increase in income-tax collections during the years 1949-50 to 1951-52. This trend could not be maintained during the two years, 1953-54 and 1954-55. The marked fall in the revenue was in the year 1954-55.

2. Collections in 1951-52 were higher than usual as a result of the intensive drive for clearance of arrears and the introduction of the Voluntary Disclosure Scheme. It was also due to some extent to the new procedure of accounting of advance payments of income-tax under section 18A direct to revenue instead of initially to a deposit head.

Decrease in Collections

3. It will be seen from the table under para 1 above that there was a fall in the income-tax collections during the year 1952-53 as compared to those during the year 1951-52, but it was negligible.

4. The fall in the collections during the years 1953-54 and 1954-55, as compared to those during the years 1951-52 and 1952-53, is mainly due to the general depression in trade and industry during the years 1952-53 and 1953-54, which were the previous years for the assessment years 1953-54 and 1954-55. This is evident from the table showing the allocation of the profits earned by various joint stock companies during the years 1950 to 1954, published in the Reserve Bank of India Bulletin for the month of January, 1957. This table was drawn up on the basis of the study of balance-sheets and profits and loss accounts of 751 joint stock companies in India for the period in question. According to this table, the net profits before taxation earned by these companies, as a whole, for the years 1950 to 1954 were as follows:

(A noun in crores of Rupees)					
	1950	1951	1952	1953	1954
Profits before Tax	63.45	84.51	55.22	65.69	78.24

The above figures show that there were appreciable falls in the profits of the companies in the years 1952 and 1953 for which the assessment years were 1953-54 and 1954-55 respectively as compared to those for the earlier years.

5. The fact that there was a general fall in the profits earned by the various industries during the previous years relevant for the assessment years 1953-54 and 1954-55, is also supported by the analysis of gross profits earned by different industries as shown in table 8, appearing on page 16 of the RBI Bulletin for January, 1957, an extract of which is enclosed. It will appear therefrom that in the Cotton Textiles, while the percentages of the gross profit to sales was 7.7 in 1950 (assessment year 1951-52) and 9.1 in 1951 (assessment year 1952-53), these percentages had fallen to 4 and 5.6 in 1952 (assessment year 1953-54) and 1953 (assessment year 1954-55) respectively. Similarly, in Jute textiles, there had been a fall in gross profits from 8.1 per cent. in 1950 and 7.6 per cent. in 1951 to 4.1 per cent. in 1952 and 6.2 per cent. in 1953. In Chemicals, the fall in gross profits was nearly half in the years 1952 and 1953 as compared to those in the years 1950 and 1951. In Tea, the fall in profits in the year 1952 was drastic, namely, from 33.5 per cent. in 1950 and 17.2 per cent. in 1951 to 2.6 per cent. in 1952. Similarly, in general trading, the rates of gross profits were 3 per cent. in 1950 and 2.5 per cent. in 1951, while these percentages fell to 1.8 in 1952 and 1953. Taking all the industries together, the average percentage of gross profits to sales fell from 9.5 in 1950 and 9.6 in 1951 to 7.1 in 1952 and 8.8 in 1953.

6. As a result of this general depression in trade and industry during the accounting years 1952-53 and 1953-54, the income-tax demand raised in 1954-55 was Rs. 160.85 crores against 173.3 crores in 1951-52 and 177.8 crores in 1952-53. On account of this slump in business, the recovery position was also affected and the collections out of the current demands fell to Rs. 102.9 crores in the year 1954-55 as against 111.39 crores in the year 1952-53 and 109.6 crores in the

year 1953-54. For the same reasons, the collections out of arrear demands for 1954-55 was only Rs. 28·03 crores as against 36·1 crores in 1952-53 and 33·07 crores in 1953-54 and the total demand on account of advance payment of tax under Section 18A of the Income-tax Act during the year 1953-54 was Rs. 77·03 crores against 87 crores in 1951-52 and 80·3 crores in 1952-53.

7. The decline in the collection of excess profits tax as a result of reduction in the number of pending Excess Profits Tax assessments was also partly responsible for the fall in the collections in the years 1953-54 and 1954-55. This will be evident from the fact that the collections of excess profits tax fell from 7·24 crores in 1950-51 and 3·47 crores in 1951-52 to 1·41 crores in 1953-54 and 0·69 crores in 1954-55.

8. Further, the following tax concessions made in the Finance Act, 1953, which became operative for and from the assessment year 1953-54 also contributed to certain extent to the fall in the collections during the years 1953-54 and 1954-55:

- (i) raising of exemption limit for personal income-tax from Rs. 3,600 to Rs. 4,200 in the case of individuals and from Rs. 7,200 to Rs. 8,400 in the case of Hindu Undivided Families. The loss of revenue on account of this concession was estimated at Rs. 82 lakhs;
- (ii) grant of liberal depreciation allowance by way of additional depreciation and initial depreciation, the effect of which was increasingly felt during the above years which formed part of the First Five Year Plan period;
- (iii) reduction of Corporation tax payable by a company on the dividends received by it from an Indian subsidiary.

9. It will appear from page 10 of the Reserve Bank Bulletin for the month of January, 1957 that on looking into the balance-sheets and the profit and loss accounts of 751 companies the Bank found that the income from sales of these companies declined continuously from Rs. 1,087 crores in 1951 (assessment year 1952-53) to Rs. 962 crores in 1953 (assessment year 1954-55) owing to post-Korean recession. But it rose to Rs. 1,026 crores in 1954 (assessment year 1955-56). The majority of the principal industries experienced rise in income from sales and manufacturing expenses in 1954. It was for these reasons that the position in regard to demands and collections has been better from the year 1956-57 and onwards. The fact that there was improvement in trade and business conditions in the year 1954 is also evident from Table 8 of the RBI Bulletin for the month of January, 1957, an extract of which is placed at Appendix 'A'.

Increase in the Cost of Collection

10. The gradual increase in the cost of collection during the year 1951-52 and onwards as shown in the Table on page 1 is due to a variety of reasons. The main reasons are:

- (i) During the war years, enormous incomes were earned by the assessee and even a skimming of the surface of a few cases could result in substantial revenue. The high

excess profits tax contributed to the large collections. Excess Profits Tax revenue was quite substantial upto 1950-51 on account of the pending EPT assessments. These conditions have been gradually changing, with the completion of the EPT cases.

- (ii) With the cessation of war profits revenue flows in with greater difficulty. All the problems which were long dormant during the period of easy collections in the war and the immediate post-war years have now come up to the surface. Unprofitable assessment work which had been kept off has had to be taken up during the later year. All this has meant increased outlay on the cost of collections.
- (iii) After the federal financial integration, the work of the Income-tax Department has considerably increased. Though this has resulted in an increase in administrative costs, the returns are not proportionately great, because the areas which came over after the financial integration do not produce much revenue. Further, for some years after the financial integration the income accruing or arising to an assessee in a Part B State was chargeable to tax generally at lower rates for the assessment years 1950-51 to 1954-55 as indicated in Appendix 'B'.
- (iv) With the growing tempo in the disposal of assessments, the number of appeals has increased as will be evident from the Appendix C and the Appellate Organisation today is larger than what it was some years ago. The number of Appellate Benches of the Appellate Tribunal has also increased resulting in the increase in expenditure on this account. This will be apparent from the following figures.

Cost of Income-tax Appellate Tribunal

(Rs. in thousands)

1950-51	1951-52	1952-53	1953-54	1954-55	1955-56	1956-57
7.11	7.79	8.63	8.86	8.66	9.30	9.07

The increased expenditure on all these items will not obviously lead to greater collections.

- (v) A number of tax concessions have been given and these have resulted in lower demand without at the same time leading to a reduction in the volume of work, e.g., grant of additional, initial and multiple shift allowances, grant of development rebate, exemption from income-tax and super-tax of profits of a new industrial undertaking to the extent of 6 per cent. of the capital employed, raising of the limit of contributions to provident fund and insurance premium for the purpose of rebate from 1/6th of the total income to 1/5th, exemptions from income-tax and super-tax granted to foreign technicians on their remuneration, reduction of corporation tax payable by a company on dividends received by it from its Indian subsidiary.

The effects of the first three concessions were increasingly felt during the First Five Year Plan period.

- (vi) The growth in the complexity of work and the growing evil of tax evasion have also contributed to the need for increase in man-power. The public have now become vociferously interested in taxation matters (both administrative and technical) and some man-power and time have to be devoted to dealing with complaints and giving information and advice.
- (vii) As a matter of fact, 160 Income-tax Officers were recruited in the year 1954. The aforesaid officers were put under training for two years. Thus the expenditure on them was incurred from the date when they were appointed, but the benefit of their services was available to the Department only after the expiry of their training period. Similarly, though the reorganisation of the Income-tax Department was started in 1946, the full effects thereof were felt some years thereafter. Meanwhile, pay scales have been revised as a result of the recommendations of the Pay Commission. These two factors have also contributed substantially to an increase in costs.

APPENDIX A

Extract from the Reserve Bank Bulletin—January, 1957.

Table 8; Page—16

Gross profits as percentage of gross sales

Industry	1950	1951	1952	1953	1954	Average
1. Cotton Textiles	7.7	9.1	4.0	5.6	5.3	6.3
2. Jute Textiles	8.1	7.6	4.1	6.2	5.9	6.4
3. Other Textiles	13.6	5.4	5.5	9.2	13.0	9.2
4. Iron & Steel	14.0	17.9	17.2	18.7	21.5	18.1
5. Engineering	8.9	8.6	8.1	7.5	7.7	8.1
6. Cement	19.2	21.4	19.0	17.9	19.5	19.4
7. Sugar	9.4	12.0	8.8	9.2	10.6	9.9
8. Paper	16.1	19.3	18.3	18.4	16.3	17.8
9. Vegetable Oil	1.7	0.6	0.6	2.1	..	0.9
10. Chemicals	8.3	8.2	4.5	4.9	5.6	6.2
11. Matches	7.4	6.9	7.8	7.2	8.0	7.5
12. Coal	10.6	8.8	8.7	7.7	8.6	8.8
13. Electricity Generation and Supply	38.8	36.7	36.0	33.1	32.4	35.0
14. Shipping	5.0	15.5	13.7	7.9	6.2	9.9
15. Tea	33.5	17.2	2.6	35.0	48.9	30.5
16. Other Plantations	40.0	42.6	35.7	38.5	37.5	38.8
17. Trading	3.0	2.5	1.8	1.8	1.3	2.1
18. Land and Estate	33.0	40.0	39.7	43.8	43.9	40.0
TOTAL (including others)	9.5	9.6	7.1	8.8	9.6	8.9

APPENDIX B

Statement showing the rates at which the income accruing or arising to an assessee in a Part B State was chargeable to tax for the assessment Years 1950-51 to 1954-55.

Assessment years 1950-51 and 1951-52.

For the above assessment years, the income arising to an assessee in a Part B State was liable to tax at the Indian rate of tax or the State rate of tax, whichever was lower, and in most cases the State rate of tax was lower. Where there was no State law relating to charge of income-tax and super-tax, the rates applicable for the above years were those shown in the Schedule to the Part B States (Taxation Concessions) Order, 1950, which were much lower than the Indian rates of tax for those years.

Explanation to para. 3 (v) of the T.C. Order, 1950. Paras. 5 and 6 of the T.C. Order.

Assessment years 1952-53 and 1954-55.

In respect of these years, an assessee with income accruing or arising in a Part B State was entitled to the following rebates from the tax chargeable at the Indian rates:

- (a) at the rate of 40 per cent., 20 per cent. and 10 per cent. respectively for the assessment years 1952-53, 1953-54 and 1954-55 on incomes arising in the States of Saurashtra, Madhya Bharat or Rajasthan;
- (b) at 20 per cent. and 10 per cent. respectively for the assessment years 1952-53 and 1953-54 on incomes arising in the State of Mysore; and
- (c) at 10 per cent. only for the assessment year 1952-53 on income accruing or arising in the State of Hyderabad. But this rebate was only admissible to an assessee which was a company.

APPENDIX C

Statement showing the number of appeals pending before the A.A.Cs. for disposal at the end of the financial years ended 31st March 1952 to 31st March 1956 and the number of appeals filed during the years ended 31st March 1952 to 31st March 1956.

No. of appeals pending for disposal as on 31st March

1952	1953	1954	1955	1956
65,966	70,535	29	99,770	1,14,915

No. of appeals filed during the years ended 31st March

74,140	76,673	86,046	92,301	91,750
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APPENDIX XVI

No. F.5(34)-BII/55

New Delhi, the 31st March, 1958

Memorandum from the Ministry of Finance (Department of Economic Affairs) pursuant to action taken on para 15 of the Fifteenth Report regarding Cess Funds.

In para 15 of their Fifteenth Report, the Public Accounts Committee have observed that it is not constitutionally in order to levy a cess and constitute a separate Fund from the proceeds thereof for an earmarked purpose, as under Article 266 of the Constitution all revenues received and all loans raised and all money received by Government in repayment of loans shall form *one* Consolidated Fund. Further the Committee have felt, that the system of assigning particular receipts for specific purposes prevents the Parliament from exercising control over the administration of public finances. The Committee also desired that all expenditure out of such separate Funds should be subject to the direct vote of Parliament.

2. The Government of India have carefully considered the points raised by the Committee and their views are set out in the following paragraphs.

3. Legislation imposing a tax and earmarking the proceeds for a specific purpose raises two issues. The first is one of the propriety of such legislation and the second whether the earmarking is consistent with the provisions of the Constitution relating to financial procedure.

4. The propriety of raising specific taxes for specific purposes really raises a matter of fiscal policy of which the Parliament is the ultimate judge. It is not unusual for particular industries to be taxed for the benefit or development of that industry (e.g. cesses on Coal for the welfare of coal miners or the protection of the mines, an export cess on mica for the welfare of mica miners) and for existing revenue to be augmented by cesses for specific purposes i.e. the benefit of local bodies (e.g. cesses on land revenue for education).

5. On the second point it has to be remembered that all Parliamentary laws are subject to the provisions of the Constitution and cannot over-ride them. So long as the taxes raised are credited to the Consolidated Fund and funds for the expenditure to be met from such taxes are made available by appropriation from the Consolidated Fund and expenditure by executive authorities of such funds is, at the appropriate stage, voted and controlled by Parliament, no real issue of constitutional impropriety would seem to arise. In fact, the provision for earmarking in such legislation is no more than the embodiment in law of Parliament's desire that certain sums of money the amount of which is determined with reference to the yield of certain taxes should be made available to and spent by the executive on a particular purpose. The provision in the law cannot be cons-

trued as authorising withdrawal from the consolidated Fund except under the normal procedure for such withdrawal prescribed by the Constitution. In recent enactments the provision for expenditure for which specific taxes are raised, makes it clear that the taxes should be credited to the Consolidated Fund and Government may thereafter pay out of such proceeds such sums, etc. c.f. section 26 of the Tea Act, 1953, section 14 of the Coir Industry Act, 1953. Section 13 of the Coffee Act, 1942, as amended is even more specific and makes the payment subject to the provision of appropriation by law of Parliament. Indeed, even mandatory payments under the Constitution (e.g. the pay of Supreme and High Court Judges under the Second Schedule) are not treated as overriding the procedural provisions in Article 114 of the Constitution for the withdrawal of money from the Consolidated Fund.

6. As regards Parliamentary control over the expenditure from *ad hoc* funds, the position is as follows:—

- (a) If the Funds are administered by autonomous authorities set up by statute, the transfer to the Funds, under the vote of Parliament and subject to the necessary appropriation under Article 114, represents final expenditure, as Parliament, by creating such Funds by law, has divested itself of the responsibility for scrutinising the expenditure further. The bodies administering these Funds have separate legal personalities of their own and their expenditure cannot be treated as expenditure of Government to be accounted for in the Consolidated Fund.
- (b) In the case of funds set up under executive dispensation, the expenditure from them is brought before the Parliament in exactly the same manner as expenditure met from the Consolidated Fund, except that a sum equal to the actual expenditure is transferred from the Public Account to the Consolidated Fund as lump sums have already been paid out of the Consolidated Fund. The actual expenditure, when incurred, is subject to Parliamentary vote and appropriation and Parliamentary control on it is as complete as in respect of expenditure finally debited to the Consolidated Fund. Unspent amounts of the provision for such expenditure in each year lapses in the same way as provision for other expenditure.

7. The propriety of appropriation of moneys from the Consolidated Fund for transfer to funds set up under executive authority has also been raised on the ground that such transfers do not really constitute expenditure. So long as the Constitution recognises the existence of the Consolidated Fund and the Public Account within the Government Account, transfers from one to the other are constitutionally expenditure of the Fund or the Public Account as the case may be. Over a wide field such transfers are made between the Consolidated Fund and the Public Account as part of the existing

accounting and financial arrangements such as payments into depreciation and other reserve funds in commercial and semi-commercial departments. Within the Consolidated Fund itself moneys are sometimes withdrawn to be paid back into it, as for example the payment of the dividend by Railways (which have no statutory existence and no separate Consolidated Fund) to General Revenues, adjustments between capital and revenue in respect of commutation of pensions and adjustments of interest between General Revenues and commercial departments. If withdrawals from the Consolidated Fund are limited only to final expenditure it would completely upset the existing accounting system, and place the commercial departments like Railways on a purely cash accounting basis.

8. After a careful examination of the problem the Finance Ministry are of the view that so long as all taxes levied by any law are initially brought to account within the Consolidated Fund as revenue and all payments of equivalent sums to any fund or body are made by appropriation from the Consolidated Fund and all expenditure out of *ad hoc* funds under the control of the executive are initially treated as expenditure from the Consolidated Fund and remain subject to the ordinary process of voting and appropriation by Parliament, the expenditure being reimbursed from the Fund to the Consolidated Fund, the procedure conforms to the essential requirements of the Constitution and secures full parliamentary control.

9. This Memorandum has been seen by the Comptroller and Auditor General.

H. S. NEGI,
Joint Secretary.

APPENDIX XVII

No. F.5(36)-BII/55

New Delhi, the 9th November, 1956

Memorandum from the Ministry of Finance (Department of Economic Affairs) pursuant to action taken on para. 24 of the Fifteenth Report regarding Debt position and loans to State and Foreign Governments.

In para. 24 of their Fifteenth Report, the Public Accounts Committee observed that, as huge sums of money were being advanced by the Centre to the States for financing their developmental expenditure, the Centre should see that adequate arrangements for repaying these loans in time were made by the States.

2. Under Rule 244 of the G.F. Rules, Vol. I, watch over the punctual repayment to the Central Government of principal and interest on the loans advanced to the State Governments is kept by the Accounts Officers who are required to report to the Government of India promptly the defaults, if any, in such repayment. This rule also provides that on receipt of such a report, the latter should immediately take steps to get the defaults remedied. The sanctioning authority is also competent to enforce a penal rate of compound interest upon all overdue instalments of interest or principal and interest and, if a penal rate is enforced, it should not, except under special orders of Government, be less than 8 per cent. per annum. The Government of India feel that these provisions have worked satisfactorily and that by and large, except in the case of certain rehabilitation loans, where the question of sharing of losses with the State Governments is under correspondence with them, there have been no major defaults in the repayment of loans or interest due thereon by the State Governments. These provisions do not, therefore, call for any modifications.

3. The bulk of the loans are made for productive purposes. In fixing the terms, therefore, due account is taken of the likely return on the projects concerned. Proceeds of Betterment Levy, if any, are also required to be earmarked for the repayment of the loans to the Centre. In the context of the large outlays necessitated by the implementation of the Plan, it is considered that contributions from ordinary revenues of the States in addition may not always be practicable and would merely add to their revenue deficits which have also ultimately to be met from further borrowings.

4. It may be mentioned that one of the terms of reference of the second Finance Commission is to make recommendations, if any, in regard to the rate of interest and the terms of repayment of the loans.

made to the State Governments between the period, the 15th day of August, 1947 and the 31st day of March, 1956. By far the bulk of the loans outstanding against the State Governments at present, relate to the loans given in this period. It is possible that, as a result of the Finance Commission's recommendations, the terms of the loans may be modified.

5. This has been shown to A.G.C.R., who has no comments to make.

H. S. NEGI,
Joint Secretary.

APPENDIX XVIII

No. F.5 (26)-BII/55

New Delhi-2, the 8th June, 1956

Note from the Ministry of Finance (Department of Economic Affairs) pursuant to action taken on para 54 of the Sixteenth Report regarding irregular resumption of a pension.

Question:—Whether the pension referred to in para. 5(a) of the Audit Report for which the Government of Pakistan and not Government of India were liable, was excluded in computing the capital value of pensions in the recent agreement with the U.K. Government.

Under the Partition Council's decision of December, 1947, each Dominion had to assume initially the liability for the pensions paid in its territory and for the pensions of the serving officers taken over by it—pensions in course of payment outside Pakistan on that date being the initial liability of India. Accordingly the initial liability for the payment of pension referred to in para 5(a) of the Audit Report (Civil) 1954—Part I, was, in the view of the Government of India, that of the Government of Pakistan as it was last paid before partition at a treasury now located in Pakistan. The Pakistan Government's contention on the other hand has been that the expression "paid in its territory" occurring in the Partition Council's decision does not cover pensions remaining undrawn for over one year prior to partition as such pensions, under the normal rules, cease to be payable until revived by the sanctioning authorities. This pension would thus, according to them, not be in course of payment in Pakistan at the date of partition and would not be their initial liability.

2. While this particular case was under discussion, a few other outstanding pension cases of this type on both sides came to notice and the Pakistan Government suggested a general settlement of such cases on the basis that the place where the first payment of pension was made after partition should determine the initial liability therefor. As the number of cases and the amounts involved on either side were not large, the Government of India recently came to the conclusion that the proposal of the Pakistan Government may be accepted. A copy of the orders issued is enclosed.

3. In the circumstances, the initial liability in respect of the pension in question would devolve on India and the Government of Pakistan will meet their share of this liability through the overall financial settlement between the two countries. In computing the capital value of the pensions transferred to the U.K. Government from

1st April, 1955, in accordance with the agreement with that Government, this pension would, therefore, be accounted for as India's liability.

4. The Audit Department has seen.

SHIV NAUBH SINGH,
for Joint Secretary.

No. 11(37)-B/53.

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
(Department of Economic Affairs)
New Delhi, the 30th April, 1956

From

Shri K. Srinivasan,
Under Secretary to the Government of India.

To

The Comptroller and Auditor General of India,
New Delhi.

Subject:—Central Pensions—Settlement of *outstanding cases* in which pensions were not in course of payment on the date of partition.

Sir,

I am directed to say that the question of incidence of liability in a few *outstanding cases* of Central pensions, which were not in course of payment on the date of partition, has been under correspondence with the Government of Pakistan for some time. The following are the types of the outstanding cases:

- (i) Pensions which were not drawn upto the date of partition even for the first time—these include pensions sanctioned before partition as well as pensions of officers who retired or became non-effective or proceeded on leave preparatory to retirement on or before the 15th August, 1947;
- (ii) Pensions which remained undrawn for more than one year and under Article 956 of the C.S.R. ceased to be payable before the 15th August, 1947;
- (iii) Pensions which, though not in course of payment on the date of partition, had been drawn at any time within a period of one year preceding the date of partition.

2. It has now been agreed with the Government of Pakistan that the initial liability in respect of these outstanding cases as also the responsibility for sanctioning pension payments should be assumed by the Central Government in whose territory the pension was first drawn after partition.

3. If any such pension is drawn outside India and Pakistan, it will be treated as India's initial liability provided its payment after partition is sanctioned by the Government of India.

4. Cases which have already been settled in accordance with the instructions contained in this Ministry's Office Memorandum No. 8483-BI/49, dated the 23rd November, 1949 will *not* be reopened.

Yours faithfully,
K. SRINIVASAN,
Under Secretary.

No. 11(37)-B/53.

Copy to the Financial Advisor, Ministry of Finance (Defence) with the request that similar action may kindly be taken regarding military pensions.

Copy also forwarded to all Ministries of the Government of India, etc.; all Civil Accountants General and Pay and Accounts Officers (including the Deputy Accountant General, Production, Commerce and Industry) and Comptrollers; the Controller of Coal Accounts; the Controller General of Defence Accounts; the Chief Accounting Officer, High Commission of India, London; the Director of Audit, Indian Accounts in the U.K., London, for information.

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K. SRINIVASAN,
Under Secretary.

APPENDIX XIX

No. F.6(15)-BI/55.

New Delhi, the 19th January, 1957.

Memorandum from the Ministry of Finance (Department of Economic Affairs) pursuant to action taken on para 52 of the Sixteenth Report regarding Account with the High Commission for Pakistan.

In this Department's Memorandum to the Public Accounts Committee dated the 5th January, 1956, it was stated that the net claims against Pakistan on account of payments made by the High Commission for India in London on behalf of Pakistan were £ 823,526-17-0.

2. The latest position, as indicated by the Accounts Department of the High Commissioner, reveals that the net balance on account of claims for the period 1st January, 1948 to 31st March, 1955 now stands at £ 907,185-4-9 as detailed below:—

Claims by India	£ 1,511,277-18-1
Claims by Pakistan	£ 304,092-13-4
Balance due to India	£ 1,207,185-4-9
Payment received from Pakistan	£ 300,000-0-0
Net due from Pakistan	£ 907,185-4-9

In addition, claims in respect of Pensions and Annuities paid on behalf of the High Commissioner for Pakistan between 15th August, 1947, to 31st December, 1947, estimated at £ 123,000 are being worked out by the High Commission for India in London.

3. The re-imbursement of the above payments to India is linked with the overall settlement of the outstanding financial issues between the two countries.

4. The Memorandum has been seen by the Audit Department.

H. S. NEGI,
Joint Secretary.

APPENDIX XX

Opinion of the Attorney General from the Ministry of Finance (Department of Revenue) pursuant to action taken on paras. 70-71 of the Twenty-third Report regarding assessment of income-tax on restricted value of perquisites.

"No. AGE (31)/57-4654/19.

OPINION

The use of a furnished residence without payment of rent is clearly a perquisite within the meaning of section 7 (1) of the Income-tax Act. This is made clear by Explanation I (i) to the sub-section. In view of this provision the English cases referred to in para. 6 of the Statement of the Case are irrelevant. The very language of section 7(1) read with Explanation 1 (i) makes the value of rent-free accommodation a perquisite and therefore a part of the income of the assessee taxable under the head "salaries".

2. Section 60 enables the Central Government by a notification in the Official Gazette to make an exemption, reduction in rate or other modification in the circumstances there mentioned. The orders of the Revenue Department dated the 6th of September 1951, do not fall within sub-section (1) of section 60 inasmuch as they are not (a) an exemption made by the Central Government, and, (b) notified in the Official Gazette. Further, sub-section (3) of section 60 added by Amending Act VII, of 1939, prevents the exercise after the coming into force of the Amending Act of the power conferred by sub-section (1) except for the purpose of rescinding an exemption, reduction or modification already made.

3. The orders dated the 6th of September, 1951 which in substance put a reduced value on the perquisite of free accommodation are, therefore, not in order and, if they are treated as having been made under section 60 of the Act, they offend sub-section (3) of that Section.

4. Section 4 of Act 58 of 1952 and Act 20 of 1953 provides *inter alia* that "no charge shall fall on the Minister (officer) personally in respect of the maintenance of such residence". The residence referred to is the furnished residence to the use of which he is entitled without payment of rent under the section. The Explanation to the section provides *inter alia* that "maintenance in relation to a residence includes the payment of local rates and taxes and the provision of electricity and water". In substance the section provides that not only will the Minister or the officer be entitled without payment of rent to a furnished residence but that he shall not be subjected to a charge in respect of the maintenance of that residence. The word "maintenance" clearly has reference to any expense which the Minis-

ter or the officer may have to incur in running it or repairing it or otherwise keeping it in condition. This is made clearer by the Explanation which speaks of local rates and taxes and electricity and water charges as being included in the maintenance of the residence. The inclusive definition of "maintenance" given in the Explanation it would be a matter of doubt whether the payment of local rates and taxes and for electricity and water could be said to be charges incurred for maintaining the residence. However, payment of income-tax on the value of any benefit or amenity granted to the Minister or officer by his employer or any sum paid by the employer in respect of any obligation which ordinarily would have been payable by the Minister or Officer cannot by any straining of the language be described as a charge *in respect of the maintenance* of the free furnished residence granted to him. It is a liability of the Minister or Officer in respect of his income and has no relation to the maintenance of the free furnished residence.

5. Section 4 of each of the two Acts mentioned above will not, therefore, protect the cost of water and electricity provided free of charge being taxed under the Income-tax Act. The free supply of water and electricity would clearly be perquisites having regard to the provisions of Explanation 1 (iii) and (iv) to sub-section (1) of section 7 of the Act.

6. The answer, therefore, to question (ii) in paragraph 14 of the Statement of the Case is in the negative.

7. Some of the papers put before me indicate that the houses allotted to the Ministers and officers are used partly for office purposes and in relation to the official duties of the Ministers and the officers. It also appears that a portion of the electricity and water charges incurred in respect of these residences arises by reason of the sentries and other staff posted at these residences. If this is the position it could not be said that the whole of these perquisites are allowed to the Minister or Officer or are due to him within the meaning of section 7, sub-section (1) of the Act. If a portion of the residence is used for office and other official purposes and if water and electricity are not used wholly by the Minister or the officer he does not get the whole benefit of the perquisites part of them being used for other purposes. The entire perquisites cannot, therefore, form part of his income. In these circumstances it would, I think, be competent to the Central Board of Revenue to make rules under section 59 (1) of the Act, for the ascertainment and determination of the value of these perquisites allowed to the Minister or officer. Such rules would be rules for the ascertainment and determination of this class of income of the Ministers and the officers. These rules will have to be made subject to the control of the Central Government, and will under sub-sections (4) and (5) of section 59 be subject to the condition of previous publication in the Official Gazette. The Central Board of Revenue will have to take into account the value of the free furnished residence and the cost of the water and electricity generally and out of such value and cost make an apportionment to the Ministers and officers having regard to the value of the accommodation and

the cost of water and electricity which are generally used by the Ministers or officers for their purposes.

NEW DELHI;
The 10th November, 1957.

Sd./- M. C. SETALVAD,
Attorney General of India."

APPENDIX XXI

Statement of the case for the opinion of the Attorney General from the Ministry of Finance (Department of Revenue) pursuant to action taken on paras. 70-71 of the Twenty-third Report regarding assessment of income-tax on restricted value of perquisites

The Salaries and Allowances of Ministers of the Union Government are regulated by the Salaries and Allowances of Ministers Act, 1952 (Act 58 of 1952). The salaries and allowances of certain other high dignitaries, viz., the Chairman and the Deputy Chairman of the Rajya Sabha as well as the Speaker and the Deputy Speaker of the Lok Sabha are likewise governed by the Salaries and Allowances of Officers of Parliament Act, 1953 (Act 20 of 1953). Section 4 of each of these two Acts, employing identical language, provides:—

“Each Minister (Officer of Parliament) shall be entitled without payment of rent to the use of a furnished residence throughout his term of office and for a period of fifteen days immediately thereafter, and no charge shall fall on the Minister (officer) personally in respect of the maintenance of such residence.

Explanation —For the purposes of this section, ‘residence’ includes the staff quarters and other buildings appurtenant thereto, and the garden thereof, and ‘maintenance’ in relation to a residence includes the payment of local rates and taxes and the provision of electricity and water.”

The concessions which a Minister or officer of Parliament receives by virtue of this provision are (a) rent-free accommodation consisting of a furnished residence the maintenance charges of which are borne by Government and (b) free supply of electricity and water to the residence. Doubts have arisen in regard to the extent to which the value of these two concessions may be excluded, if at all, in computing the total income for the purposes of income-tax.

2. Before 1951, the assessment of ‘perquisites’ was governed by the Board’s Circular dated 12th May, 1928, a copy of which is briefed (flag ‘A’). In that year, the Central Board of Revenue considered it unreasonable not to make any distinction between furnished and unfurnished residences, and hence decided that the value of rent free residence provided by an employer should be taken at 10 per cent. of the employees’ salary in the case of unfurnished residence and 12½ per cent. of the salary in the case of a furnished residence. A copy of Board’s Circular dated 6th September, 1951, setting out the above procedure is briefed (flag ‘B’). The extra 2½ per cent. in respect of furniture was based upon the advice of the Ministry of Works, Production and Supply to the effect that the rent of furniture in case of a furnished residence was usually about 25 per cent. of the rent of

the building, taking 10 per cent. of the salary as rent. Another consideration which weighed with the Board in coming to the above decision was that free quarters provided by an employer were to be evaluated according to the market value, subject to certain economic considerations and "it would be unreasonable to expect an employee to pay tax on the full rental value of his house *in the provision of which he has had no say*". A limit to the valuation is therefore necessary". The formula of 10 per cent. represented a broad principle applicable to employees in general, besides Ministers and certain other dignitaries. While this was the position till 1951, the provision for taxation of perquisites was substantially changed by the amendment to section 7 by the Finance Act, 1955. According to Explanation 1(i) to section 7(1) of the Income-tax Act, perquisites include the value of rent free accommodation or the value of any concession in the matter of rent respecting any accommodation provided to the assessee by his employer.

3. In the Audit Report (Civil) 1955, objection was taken to these executive instructions issued by the Central Board of Revenue and to the exclusion for the purposes of assessment of the value of free electricity and water supplied to the residences of Ministers and officers of Parliament. A copy of paragraph 15 of the Report setting out the above objection is briefed (flag 'C'). Commenting on this the Public Accounts Committee in its 23rd Report, 1956-57, said that the matter should be referred to the Attorney General for opinion. A copy of paragraphs 67 to 71 of the Report of the Public Accounts Committee is briefed (flag 'D').

4. The Audit objection is that, whatever may have been the position under section 7 of the Indian Income-tax Act before 1955, the amended section (introduced by Act XV of 1955) gives a clear definition of the term "perquisites" and covers not merely the actual rental value of the rent free accommodation but also any concessional recovery of rent. As such, the valuation of rent free residences at 10 per cent. (if unfurnished) and 12½ per cent. (if furnished), on salaries under the executive instructions is no longer permissible. They set out figures to show that the real value of the rent free accommodation is much more than the value taken for the purposes of income-tax in accordance with the Circular mentioned above (*vide* flag 'C').

5. Audit also object to the exclusion for the purposes of income-tax of the value of free supply of water and electricity to the residences of the Ministers and officers of Parliament. Their contention is that exemption from taxation of the full value of the rent free accommodation as well as the value of free supply of water and electricity violates section 60(3) of the Income-tax Act. It is added that the continued application of the executive instructions mentioned above is resulting, on the one hand, in loss of revenue to the State and, on the other, in giving extra legal benefit to a class of assesseees.

6. The first question is in regard to the amount to be taken as the value of the rent free accommodation allotted to the Ministers and other dignitaries. In view of the clear wording of clause (i) of Explanation 1 to section 7(1), it may not be possible to get much help from the English case law. The learned author of Kanga on Income-tax

observes (at p. 421, 3rd Edn.): "In *Tenant Vs. Smith*, 3 T.C. 158 the House of Lords held that a benefit which was not capable of being converted into money,—e.g., the right to occupy premises free was not perquisite. This explanation marks a departure from that principle of general law". Still it will not be out of place to refer to certain very broad principles that have been laid down in some of the leading English cases. In the above mentioned case of *Tenant Vs. Smith*, 3 T.C. 158, the House of Lords held that where a banking company assigned to its agent as a residence a portion of the bank premises occupied by them, the agent being required to reside in the building as the servant of the bank and for the purpose of performing the duty which he owes to his employers, the value of the residence is not an emolument of the officer in respect of which he is chargeable with income-tax, and the income is not to be included in estimating the total amount of income for the purposes of income tax. In a more recent decision reported in 30 T.C. 467, the earlier case law was reviewed and it was held that where a Colliery Under Manager was required to occupy a house provided rent free by the employer it was held that appellant was not in "beneficial occupation" of the house and hence was not assessable in respect of the value of the rent free accommodation provided to him. It will be seen that here is another principle to be kept in view in regard to the taxability of these perquisites, namely, whether the assessee is in *beneficial* occupation of the house, apart from the question whether the benefit was or was not capable of being converted into money. No doubt the case of the bank manager or the colliery manager who was required to stay in the premises provided by the employer for the better discharge of his duties and the case of Ministers and other dignitaries who are given rent free accommodation and expected to utilise that accommodation, may not be comparable in all respects. Nevertheless there is a difference between Ministers and other dignitaries who occupy accommodation provided by Government and other officials in occupation of Government allotted accommodation. In the case of Ministers and other dignitaries it cannot be said that the bungalow allotted for their use is entirely for their private purposes because such persons are expected to and actually do conduct their official business, in part at least, at their residences. They are expected to receive persons coming to them in their official capacity and hold meetings etc. there. Another aspect of the matter has been brought out by a note recorded by the Finance Minister quoted below:—

"Ministers have no security of tenure and they cannot burn their boats in the places where they come from. The enforced temporary character of their tenure compels them in most cases to maintain an establishment at Home. Their cases cannot be compared with the cases of permanent officials serving Government. The privilege of a rent free accommodation arises out of these considerations. If they cannot determine the size and the nature of the houses they occupy, they cannot determine the quantum of electric energy consumed or water supply drawn upon. The maintenance of gardens in such houses is of little interest to many Ministers. In the circum-

stances the importance of concessions given to Ministers is somewhat overstated. As my predecessor has pointed out, the Central Board of Revenue as interpreters of law has acted correctly in fixing 12½ per cent. as the tax value of these concessions. It can also be pointed out that the value of the services to the nation of many of the Ministers cannot be equated to the salary they receive. Any attempt to make out that they are getting concessions which legally are not admissible is to ignore the basic realities of the situation. That would be the line I would take at the P.A.C. meeting”.

The letter to the Prime Minister from Shri Deshmukh which is referred to in the above note is also briefed (flag ‘F’). In this view, it cannot be said that the difference, if any, between 12½ per cent. of the salary of the Minister and the fair rent of the furnished house allotted to him constitutes a “perquisite” of the Minister within the meaning of clause (i) of the Explanation.

7. The other argument advanced by the Revenue Department is not without force. The instructions contained in the Circular of 1951 merely give directions as to how the value of the rent free residences furnished or unfurnished should be calculated to secure uniformity and to save unnecessary work to officers. Such instructions may be relatable to the power conferred on the Board by section 5(8) of the Income-tax Act. What might appear to be an artificial mode of computing certain item of income is not unknown to the Income-tax Acts. For instance, where the property is in the occupation of the owner for the purposes of his own residence, section 9(2) of the Income-tax Act, provides that in such a case, the bonafide annual value of the property for the purpose of inclusion in the total income of the owner should not exceed 10 per cent. of his total income. The owner in such a case does not derive any income from the property in question, but the amount which has to be included in his assessment for the occupation of the house, in fact, represents the cash value of the benefit which he derives by occupying the same without paying any rent. In the case of an employee provided with rent free accommodation by the employer he uses it exclusively for his own occupation and does not derive any income by letting it out. Hence, having regard to the principle underlying the provision in section 9(2) of the Act, fixing of the valuation of rent free accommodation in his case at 10 per cent. or 12½ per cent. as the case may be, of his salary, does not appear to be unreasonable. It would not therefore be correct to say that instructions given by the Board amount to exemptions under section 60(1) of the Act and as such hit by sub-section (3) of that Section.

8. The observations of the Central Board of Revenue on this part of the case are as follows:—

“On a strict interpretation of this section [section 7(1), Explanation 1(i)], the Central Board of Revenue should have assessed rent of any accommodation furnished free to the employee on the basis of the actual value, irrespective of the salary of the employee. This, however,

was not done and the actual orders of the Central Board of Revenue are that not only for Ministers and other officers of Parliament but in respect of those whose income is assessed under section 7 of the Income-tax Act, the value of the accommodation should be assessed on the basis of 10 per cent. of the salary (if unfurnished) and 12½ per cent. of the salary (if furnished), so long as the actual rent paid by the employer does not exceed 20 per cent. of the salary (if unfurnished) or 25 per cent. (if furnished).

"The authority for this action of the Central Board of Revenue is to be found in an assurance given by the then Finance Minister when the amendment of section 7 of the Income-tax Act was being discussed in the Lok Sabha. In connection with the changes made regarding the taxation of perquisites, the Minister gave several assurances in Parliament. A copy of these is at slip 'H'. It will be observed that the Minister stated in particular that 'in regard to the other perquisites, it is not my intention that a very meticulous appraisal or evaluation of this should be made..... As regards provision of houses free of rent, the present practice of evaluating them at 10 per cent. of the occupiers' income when unfurnished and 12½ per cent. when furnished will be continued. It will be continued subject to the accommodation provided and the rent paid by the employer being reasonable. The assurance by the Minister was in categorical terms. It refers specifically to the evaluation of rent free accommodation. It also stated categorically that it was not the intention to have a very meticulous appraisal of the value of perquisites. The value of an accommodation may depend on local and ephemeral conditions or on cost of construction or on the capacity of the occupier to pay. Considering that the intention was not to make meticulous calculations, the instructions of the Central Board of Revenue, which it may be emphasised again, apply not only to Ministers but to every person assessed under section 7 of the Income Tax Act, contain a fair index to the value of rent free accommodation".

9. In regard to the payment of electricity and water charges in respect of the houses allotted to Ministers etc., section 4 of the Salaries and Allowances Acts mentioned earlier provides that "no charge shall fall on the Minister (or officer of Parliament) personally in respect of the maintenance of such residence," and that "maintenance includes the payment of local rates and tax and the provision of electricity and water." Relying on this provision the Law Minister gave the ruling that "there is no reason why the word 'charge' (in section 4) should not be held to cover a charge under the Indian Income-tax Act". A copy of the note of Shri C. C. Biswas is briefed (flag 'G').

10. The wording of section 4 gives a clue to the decision on the other question also. The intention of the Legislature is obviously

that it is in the interest of the State to see that the Minister is accommodated suitably to his status and for this purpose the bungalow is maintained properly at Government expense. From this it follows that it is in the public interest that the Minister should live in a suitable bungalow irrespective of what the standard rent of the building would be. It would not be proper to regard the excess of rental value of the building above the 10 per cent. of salary as any additional remuneration to the Minister but it is something which the State provides for a public purpose and as such it cannot be regarded as any benefit conferred personally on the Minister. In this connection Counsel may kindly see the extract from the debate in the Lok Sabha dated 18th April, 1955, which is briefed (flag 'H').

11. On this part of the case the observations of the Central Board of Revenue are as follows:—

“In regard to electricity and water charges in respect of houses allotted to Ministers, two points may be emphasised. Firstly, the basic principle of the assurances given by the Minister while piloting the Bill was also that ‘we have thought it is not necessary that certain payments in cash or in kind which reasonably go with employment or vocation and have come to be regarded as incidental to such employment or vocation should be eliminated completely.’ Charges for water and electricity have been free for the Ministers since 1947 and could, therefore, be regarded in 1955 as being incidental to such employment. Secondly, as in the case of houses themselves much of the expenditure on electricity and water is not incurred for the personal benefit of the Ministers but as a State arrangement for the safety and protection of the Ministers. It is more for the protection of the house than for the personal benefit of the Minister that the entire compound and the gates are provided with powerful bulbs and the guards and chowkidars who stay in the premises contribute not a little to the expenditure on water.”

12. In paragraph 69 of the Report of the Public Accounts Committee, reference has been made to section 59(1) of the Income-tax Act, which permitted the Board to make Rules prescribing the methods by which an estimate of income, profits and gains liable to tax may be made where such incomes etc. could not be definitely ascertained or could be ascertained only with some amount of trouble and expense to the assessee. In the first place, the said section only empowers the Board to make Rules, and it could not be said that the instructions referred to above are Rules. It may also be noticed that sub-section (5) requires that Rules made under that section should be published in the official gazette, which is not the case here. Further, as is clear from sub-section (3), Rules may be framed only in the case of “income derived in part from agriculture and in part from business”. The continuance of the old executive orders might not, therefore, be justified with reference to section 59(1) of the Act.

13. The observations of the Chairman, Central Board of Revenue on this point are as follows:—

“I do not agree with the Law Ministry that section 59(1) of Income-tax Act limits the power of the Central Board of Revenue to frame rules in the case of income derived in part from agriculture and in part from business. Indeed, section 59(1) makes it clear that the rules may be made ‘for carrying out the purposes of this Act and for the ascertainment and determination of any class of income.’ It is quite true that section 59(2)(a) refers to ‘incomes derived in part from agriculture and in part from business’, but the preamble to section 59(2) makes it quite clear that this is ‘without prejudice to the generality of the foregoing power’, namely, that contained in section 59(1). It is certainly true that section 59(5) requires that the rules should be published in the official Gazette, but this seems to me to be only a technical matter and, if there is nothing illegal in the action of the Central Board of Revenue, we can still remedy the defect by publishing the rules under this Act.”

14. Counsel’s opinion is, therefore, requested on the following questions:—

- (i) Whether the orders of the Revenue Department dated the 6th September, 1951, computing the value of the perquisite of free accommodation given to Ministers and other high dignitaries at 10 per cent. (or 12½ per cent. if the accommodation is furnished) of the salary of the person concerned are in order and do not offend section 60(3) of the Income-tax Act.
- (ii) Whether the exclusion of the value of the cost of water and electricity provided free of charge to Ministers and other high dignitaries for the purpose of income-tax is in order.
- (iii) Generally.

S. K. AIYAR,
Deputy Secretary.
Tel. No. 33329.

C. No. 35(23) IT/50.

CENTRAL BOARD OF REVENUE

New Delhi, the 6th September, 1951.

CIRCULAR NO. 57-(LVIII-3) OF 1951

SUBJECT:—Salary and Allowances—Rent free furnished and unfurnished residences—Value of.. to be included in assessment as perquisites

It has so long been the practice of the Department to estimate the value of rent-free residence (perquisite), provided by an employer to his employee, at a figure not exceeding ten per cent of the employee's salary, irrespective of whether the residence was furnished or unfurnished. The Board, however, consider it unreasonable that no distinction should be made between furnished and unfurnished residences and it has, therefore been decided that the value of rent-free residence provided by an employer should be taken—

(i) in the case of an unfurnished residence, at 10 per cent of the employee's salary, and

(ii) in the case of a furnished residence, at 12½ per cent of the salary.

subject always to the right of the employee to claim the adoption of the *actual rental value* of the perquisite should it be less than the above percentages. For this purpose the term 'salary' shall be taken to include—

(a) Pay and pensions,

(b) Payments and fees, if such payments or fees are received in the shape of a fixed addition to the monthly pay and allowances as part of the authorised remuneration of a post,

(c) Compensatory allowances, other than travelling allowance and dearness allowance, and

(d) Exchange compensation allowance.

This change should be brought into effect from the financial year 1952-53, i.e. in respect of salaries and perquisites due after 31st March 1952.

Sd./S. P. LAHIRI.

SECRETARY, CENTRAL BOARD, OF REVENUE.

To

All Commissioners of Income-tax.

All Appellate Assistant Commissioners.

All Chambers of Commerce.
 The Director of Inspection (Income-tax).
 The Registrar, Income-tax Appellate Tribunal, and the Statistician
 (Income-tax).

11 of 1928/R. Dis. No. 278-IT./28.
 CENTRAL BOARD OF REVENUE
Simla, the 12th May, 1928.

CIRCULAR

Perquisites—Indian Income-tax Act, (XI 22)—Section 7—Liability to tax—Benefits not convertible into money—Income-tax Manual Paragraph 20.

Though Act XI of 1922 contains no provision corresponding to that in section 3(2) (ix) of Act VII of 1918, to the effect that no perquisite or benefit, being neither money nor reasonably convertible into money by the recipient, is liable to tax, the law in this respect remains unaltered, except in regard to rent free quarters, the value of which is specifically rendered liable without qualifications by the explanation to section 7(i) of Act XI—22.

2. Such perquisites therefore as (for example) tiffin, domestic services, or passages by rail or steamer provided by employers for their employees free of charge, are not liable to tax.

3. Para. 20 of the Income-tax Manual will be amended.

Sd.|- V. S. SUNDARAM,
SECRETARY, CENTRAL BOARD OF REVENUE.

To

All Commissioners of Income-tax.

No. 6481-PSF/56.

New Delhi, June 15, 1956.

My dear Prime Minister,

The Audit Report (Civil) 1955, Part I contains a paragraph at page 16 relating to the assessment of Income Tax on restricted value of perquisites. (For your easy reference I enclose a copy of the Audit Report). Briefly it is to the effect that an irregularity is being committed by the Income Tax authorities in not taking into account for tax assessment purposes the value of fully furnished residences, water and electricity supplied to Ministers and certain other dignitaries of the Union Government (like the Speaker of the Lok Sabha) whose salaries and privileges are regulated by Acts of Parliament. I believe this Audit comment received some sort of publicity in the press.

2. I had the matter fully examined in the Ministry and enclose a detailed note prepared in the Central Board of Revenue on the actual position. You will see therefrom that what we are doing is perfectly correct according to law; and we had in fact pointed this out when the draft paragraph came to us earlier.

3. It is interesting that the Audit authorities have taken it upon themselves to finally pronounce on the interpretation of the law and to rule that it is no longer permissible to exclude the value of these perquisites in the assessable income and that it is resulting, on the one hand, in loss of revenues to the State and, on the other, in giving extra legal benefit to a class of assessees. The Central Board of Revenue which has the duty of interpreting and administering the law has necessarily to follow its own interpretation, and will in due course make its own stand clear to the Public Accounts Committee.

Yours sincerely,
(C. D. DESHMUKH).

Shri Jawaharlal Nehru,
Prime Minister of India,
New Delhi.

AUDIT REPORT (CIVIL) 1955—PARA 15—NOTE ON.

In February, 1956, the AGCR sent for Board's comments a draft paragraph dealing with the assessment of perquisites representing rent free accommodation and free supply of water and electricity provided to Ministers and certain other dignitaries whose salaries are regulated by Acts of Parliament. This paragraph was intended to be included in the Audit Report. It was then pointed out to him that the paragraph, as drafted, was based on incorrect assumptions. The Comptroller and Auditor General has now included a revised paragraph—as paragraph 15 in the Audit Report (Civil) 1955—Part I regarding the assessment to income-tax on the restricted value of perquisites. The points raised therein are:

- (i) that the amendment to section 7 of the Income Tax Act, made in 1955, is intended to cover not merely the actual rental value of the rent free accommodation but also any concessional recovery of rent. As such, the valuation of rent free residences at 10 per cent (if unfurnished) and 12½ per cent (if furnished) on salaries under the executive instructions is no longer permissible; yet these executive instructions are being applied also in the case of Ministers and certain other dignitaries of the Union Government whose salaries and privileges are regulated by Acts of Parliament;
- (ii) that in view of the amended section 7 of the Income-tax Act, exclusion from the total income of the Ministers and other dignitaries of the value of water and electricity supplied free to them in terms of the relevant Acts of Parliament, following the old executive and instructions, is not in accordance with the present law; and
- (iii) that the continued application of the executive instructions, referred to in (i) and (ii) above, is resulting in loss of revenue to the State and in giving extra-legal benefit to a class of people which is not permissible in view of the provisions of section 60(3) of the Income-tax Act.

2. Besides the salaries and allowances of Ministers, the salaries and allowances of the Chairman and Deputy Chairman of the Rajya Sabha and the Speaker and the Deputy Speaker of the Lok Sabha are regulated by Acts of Parliament. Hence the term "certain other dignitaries", referred to in the Comptroller and Auditor General's Audit Report evidently means the Chairman and the Deputy Chairman of the Rajya Sabha and the Speaker and the Deputy Speaker of the Lok Sabha.

3. It may be stated at the outset that the old section 7 was substituted by a new section 7 by the Finance Act, 1955. This amended

section has become effective for the purposes of assessment for and from the assessment year 1956-57. None of the cases of the Ministers and other dignitaries has yet become ripe for the assessment for the year 1956-57. Therefore, there cannot be any question of the new provisions having been ignored in making assessments.

4. The points referred to in paragraph 1 above are dealt with as below:

Regarding (i): Under the amended section 7, perquisites allowed to the employee by the employer are assessable under the head "salaries" in the hands of the employees concerned. Part (i) of Explanation I to section 7 lays down that perquisites include "the value of rent free accommodation or the value of any concession in the matter of rent respecting any accommodation provided to the assessee by his employer". Even under the Act, as it stood before its amendment by the Indian Income-tax (Amendment) Act, 1939, perquisites allowed to an employee by an employer were chargeable to income-tax under the head "salaries" and the right of a person to occupy free of rent as a place of residence any premises provided by the employer was to be regarded as a perquisite. It was then decided that where the rent free houses formed part of the perquisite of an assessee, the cash value of such a house, furnished or unfurnished, to the occupier need not ordinarily be deemed to be more than 10 per cent. of the salary of the employee. This held field for more than 25 years and had been in vogue even for the year 1928.

5. Subsequently, it was considered unreasonable not to make any distinction between furnished and unfurnished residences and accordingly, in consultation with the Ministry of Works, Production and Supply, the cash value of a rent free furnished house was decided to be taken at $12\frac{1}{2}$ per cent. This decision was based on the fact that the rent of furniture in case of furnished residence provided by the Government was charged at 25 per cent. of the rent of the building (taken at 10 per cent. of the salary as rent) which worked out to $2\frac{1}{2}$ per cent. of the salary. Another consideration which weighed with the Board in coming to the above decision was that "free quarters provided by employer were to be evaluated according to the market value, subject to certain economic considerations and it would be unreasonable to expect the employee to pay tax on the full rental value of his house in the provision of which he had no say. Hence a limit to the valuation was necessary". Accordingly instructions were issued to the effect that the value of rent free residences provided by the employer should be taken:

(a) in the case of unfurnished residence at 10 per cent. of the employee's salary, and

(b) in the case of furnished residence at $12\frac{1}{2}$ per cent. of the salary.

6. Further, the valuation of perquisites, representing rent free residences, should be based on not what the employer has to pay for the rent of the house but on what the employee saves by being provided with a rent free residence. Where an employer provides

accommodation for housing his employees and charges rent therefor, normally such a charge does not exceed 10 per cent. of the salary of the employee concerned. Thus the saving of the employee is to the extent of 10 per cent. of his salary if he is provided with a rent free accommodation.

7. Again, if a property is self occupied by the owner thereof, section 9(2) of the Income Tax Act provides that in such a case the *bona fide* annual value of the property in question for the purpose of inclusion in the total income of the owner should not exceed 10 per cent. of his total income. The owner, in such a case, does not derive any income from the property in question, but the amount, which is includible in his assessment for the occupation of the house, in fact, represents the cash value of the benefit he derives by occupying the same without paying any rent. In the case of any employee provided with rent free accommodation by the employer, no doubt he is not the owner of the property in question, nevertheless he uses it exclusively for his own occupation and does not derive any income by letting it out. Hence having regard to the principle underlying the provision of section 9(2) of the Income Tax Act, fixing of the valuation of the rent free accommodation in his case at 10 per cent. or 12½ per cent. as the case may be, of his salary does not appear to be unreasonable. As the provisions of rent free accommodation is inseparably linked with his occupation as a salaried employer, the cash value of the accommodation can only be measured with reference to his salary.

8. While the formula of 10 per cent or 12½ per cent represents a broad principle to be followed in such cases, it is not the last word, because there may be cases where a different yard-stick may be justified. With a view to cover such cases, instructions have been issued that where the fair rent of the accommodation provided free of rent to an employee exceeds 20 per cent (if unfurnished) and 25 per cent (if furnished) of the salary of an employee, such excess may be included in the total income of the employee concerned in addition to 10 per cent or 12½ per cent. as the case may be, of the salary mentioned above.

9. From the foregoing, it is clear that there is no question of granting any concession to Ministers and other dignitaries as their house rents are evaluated on the same basis as those of other employees. These administrative instructions are issued in the interest of uniformity and of saving unnecessary work to officers. There is no reason to think that on the whole there is a gain or loss to revenue.

10. *Regarding (ii)*: As regards other perquisites, the legal position as understood by the old Legislative Department was that to attract income-tax "a perquisite should either be received in the form of money or that something should actually be received which would be capable of being converted into money by the recipient". On the above view a decision was taken as early as 1928 that the perquisites which were not convertible into money were not liable to income-tax. Accordingly, perquisites such as supply of free electricity and water provided to Ministers and other dignitaries,

referred to above, were not held to be liable to tax in their hands under the old section 7. No doubt, under the amended section 7, the cash value of free supply of water and electricity is liable to income-tax in the hands of an employee as a perquisite but it cannot be included in the total income of Ministers and other dignitaries because of section 4 of the Salaries & Allowances of Ministers Act, 1952 and section 4 of the Salaries & Allowances of Officers of Parliament Act, 1953 by which their salaries have been fixed. These sections specifically provide that no charge shall fall on the Ministers and other dignitaries personally in respect of the maintenance of their official residences. We have been advised that the term "charge" includes income-tax as well and that in view of this provision no income-tax can be levied in respect of any of the payments coming within the scope of maintenance in relation to the residence of a Minister etc. which includes free supply of water and electricity as well. Hence the question of levying income-tax on the value of free supply of water and electricity to Ministers and other dignitaries does not arise.

11. *Regarding (iii)*: The Central Government are prohibited from issuing any notification granting any exemption, reduction in rate or making other modification in respect of income-tax after the commencement of Income-tax (Amendment) Act, 1939. The instructions referred to by the C. & Ar. G1. merely gave directions as to how the value of the rent-free residences furnished or unfurnished should be calculated to secure uniform basis of calculation. The Board are authorised to issue such instructions for the purposes of execution and administration of the Income Tax Act under section 5(8) of the said Act.

12. For the reasons stated in paras 4 to 10 above it does not seem correct to say that the application of the instructions is resulting in loss of revenue to the State or the instructions issued by the Board are in conflict with the amended provisions of section 7 of the Income Tax Act and have the effect of giving extra legal concession to a class of people, namely, Ministers and other dignitaries.

13. The Board are competent to administer the law as they understand it or in the manner as they are advised. The Comptroller and Auditor-General, therefore, does not seem competent to make such a down-right statement as has been made in para 15 of the Audit Report.

67. In terms of Section 7 of the Income-tax Act, 1922 as it stood prior to its amendment in 1955, perquisites of an employee chargeable for income-tax included the provision of rent-free accommodation by the employer. The manner of determining the value of perquisites was not, however, actually defined in the Act, and in practice, was governed by the orders issued by the Government of India in 1928 and 1952 according to which, the value of the perquisite of free accommodation was to be computed at 10 per cent.

or 12½ per cent. of the salary of the employee according as the accommodation was unfurnished or furnished. The Finance Act of 1955 amended section 7 of the Income-tax Act. This amendment defined clearly the term 'perquisites'. It provided that the value of rent-free accommodation or the value of any concession in the matter of rent respective any accommodation provided to the assessee by his employer should be included in the assessment. This amendment was intended to cover not merely the actual rental value of the rent-free accommodation but also any concessional recovery of rent. It has been pointed out in the Audit Report that with the above amendment of Section 7 by the Finance Act, 1955, the old executive orders regarding computation of the value of rent-free accommodation ceased to be valid or applicable. Nevertheless, those orders are still being applied even in cases of Ministers and other high dignitaries of Government whose salaries and privileges are regulated by Act of Parliament and who are in terms thereof, provided with free furnished accommodation and water and electricity free of cost.

68. Also there was another executive instruction in force prior to the amendment of 1955, to the effect that the perquisites for the purpose of assessment had to be received in the form of money or in a form capable of being converted into money by the recipients. Accordingly, passage, electricity, water, servants, etc., provided free by the employer were excluded for the purposes of assessment. By the amendment of 1955, 'the value of any benefit or amenity granted or provided to the assessee by the employer free of cost or at concessional rate' and also 'any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee' shall be included in the assessment for income-tax. In spite of the amendment of the law the value of free water, electricity, etc., provided to the Ministers and dignitaries are excluded from the computation of assessable income in accordance with the executive orders. The continued application of the old orders was resulting on the one hand in loss of revenue to the State and on the other, in giving extra legal benefit to a class of assesseees.

69. In his evidence before the Committee, the Chairman, Central Board of Revenue explained that the necessity for the amendment of 1955 arose on account of the legal opinion given in 1938 that the specific mention of rent-free accommodation as a perquisite in the Act excluded taxation on other perquisites such as passage, etc., which were not convertible into money. The main object of the amendment of 1955 was to bring such concessions also within the scope of taxable income. It was further explained that as stated by the Finance Minister in the Lok Sabha when the Act was being amended, it was not the intention of Government to change the existing basis of evaluating the rent-free accommodation provided the rent paid therefor by the employer was reasonable. According to Government, it was the value of rent-free accommodation to the employee which was reckoned for purposes of assessment and this was determined at a reasonable percentage of his emoluments. Where, however, the disparity between the rent

paid by the employer and the evaluation of the house as determined at the prescribed percentage of the salary of the employee was unduly great, the excess was liable to tax. With reference to the observation that by continuing the old executive orders, Government were giving extra legal benefits to a class of assesseees, the Chairman, Central Board of Revenue invited the attention of the Committee to section 59(1) of the Income-tax Act which permitted the Central Board of Revenue to make rules prescribing the methods by which an estimate of income, profits and gains liable to tax may be made where such incomes, etc., could not be definitely ascertained or could be ascertained only with some amount of trouble and expense to the assesseees. The executive instructions issued by the Government were in pursuance of these provisions of the Act and as such, no extra legal benefits were involved in their continued application.

70. The Committee find it difficult to endorse the view taken by Government. In their opinion section 7 as it stands after amendment could not admit of the interpretation now sought to be placed thereon by Government whatever their intentions might have been at the time of amending the Act. They doubt whether the expression 'value of rent-free accommodation' used in the Act could be stretched to mean the value of the accommodation to the employee and as such was relatable to the emoluments of the employee. In view of the difference of opinion that had arisen between the Comptroller and Auditor-General and the Government, the Committee feel that the opinion of the Attorney-General should have been sought in the matter as soon as it arose.

71. In regard to the exclusion of the value of the cost of water and electricity provided free of charge to Ministers and other dignitaries for the purpose of income-tax, the Chairman, Central Board of Revenue stated that the Salaries and Allowances of Ministers Act, 1952 provided that 'no charge shall fall on the Minister personally in respect of the maintenance of such a residence' which, as advised by the Law Ministry, included also a charge under the Income-tax Act. During the course of the examination, the Committee learnt that it was the view of the Board that the charges for water and electricity in respect of the Ministers' residences, which were payable by Government to separate authorities like the Municipality and State Electricity Authority, should be regarded as additional emoluments of the persons and be taxed as such; but the legal advice was otherwise. The Committee think that this is a fit case for reference to the Attorney-General for opinion. The Committee would also like to add that it would be a good practice in future to refer all similar cases, where the beneficiaries are members of the Government, to the Attorney-General for his opinion.

Notes in the Ministry of Law

On the question raised in the first sentence of paragraph 2 of Shri A. K. Roy's note of 13th May 1953, the decision in *Nicoll v. Austin*, 19 T.C. 531, referred to by Shri Pyarelal appears to me to

be in point. That was a case under the English Income-tax Act, but the principle of the decision will, I think, apply to the Indian Act as well (See Kanga's Law and Practice of Income-tax 1950 Edn. P. 231). In that case by an agreement between the company and its Governing Director the company agreed to pay for such items as taxes, cost of gas, electric light, telephone, etc. in respect of the house occupied by the Governing Director. It was held that the amounts so paid by the company were profits of office of the Director and were assessable as such. It would, therefore, follow that the amounts paid by Government in respect of local rates, taxes, electricity and water in regard to the free residence provided to Ministers under section 4 of the Salaries and Allowances of Ministers Act, 1952, will be either perquisites or profits of the Ministers and will be chargeable under section 7 of the Indian Income-tax Act, 1922.

2. As regards the manner of assessment of these items, I agree with the view expressed in paragraph 3 of Shri A. K. Roy's note dated the 13th May that the 12½ per cent. should be considered to include local rates and taxes. I also agree with the suggestion in paragraph 5 of his note regarding taxation of the amounts paid in respect of electricity and water.

Sd./- K. Y. BHANDARKAR.

9-6-1953.

Secretary.

Minister

I find it difficult to accept *fully* the opinion given above. So far as the Ministers' right to occupy a furnished residence free of rent is concerned, I agree that this is a "perquisite" within the meaning of section 7(1) of the Indian Income-tax Act, and hence chargeable thereunder. The Explanation to section 7(1) in fact leaves no doubt on the point. So far as payment of local rates and taxes and the provision of electricity and water are concerned,—these items all coming under "maintenance" in relation to the residence (*vide* Explanation to section 4 of the Salaries and Allowances of Ministers Act, 1952),—the matter appears to me to stand on a different footing. Payments on these accounts might be equally chargeable under section 7(1) of the Indian Income-tax Act, as being "profits", if not as "perquisites"; but the question is whether or not they are exempted from such chargeability under section 4 of the Salaries and Allowances of Ministers Act. The second part of this section expressly provides that "*no charge shall fall on the Minister personally in respect of the maintenance of such residence*". I have not before me the case of *Nicol v Austin*, 19 T.C. 531, to which reference has been made in the opinions, and do not know if the effect of any such statutory provision had to be considered in that case. To my mind, this is a significant provision, which makes a difference, and its effect cannot just be ignored. I see no reason why the word "charge" used in section 4 of the Salaries and Allowances of Ministers Act should not be held to cover a charge under the Indian Income-tax Act.

I am accordingly of opinion that no income-tax can be charged in respect of any of the payments coming within the scope of "maintenance" in relation to a Minister's residence. If I am correct in this view, it follows that in fixing the standard rental value of such residence, the "maintenance" charges should all be excluded from computation. The total amount liable to tax-deduction in addition to salary should, therefore, not exceed $12\frac{1}{2}$ per cent.

Sd/- C. C. BISWAS.

Calcutta, 19-6-1953.

Extracts from the Debate in the Lok Sabha dated 18th April, 1955

(Vol III—No. 42)

(Budget Speech of the Finance Minister)

* * * * *

Now, I shall come to the changes proposed in some sections of the Act. Various perquisites—both in cash and in kind—which were not so far taxable are now being subject to taxes. There has been much criticism of this change. I must first explain to the house that the object of my proposing the change in law was not so much to increase the revenue as to stop abuses of the existing law. To give some examples, we have a case where club bills and school fees of children are paid by the companies and there are instances where a person on a salary of Rs. 500 per month gets an entertainment allowance of Rs. 2,300 per month. That is very entertaining. While these abuses must be stopped, we have thought it is not necessary that certain payments in cash or in kind which reasonably go with an employment or vocation and have come to be regarded as incidental to such employment or vocation should be eliminated completely. Indeed it is not possible beyond a point to stop these things altogether merely by taxation for it is difficult to prevent the employer from increasing the emoluments of the employee by the amount of the tax payable on these perquisites. After considering the matter and in order not to interfere with legitimate practices, I have come to the conclusion that the following relaxations in the present proposals are necessary.

Firstly, free passages for home leave received by employees for themselves and for members of their families should not be subject to tax, if within reasonable limits. It is our intention that suitable rules should be framed for the purpose. Obviously, these rules will apply only to those whose homes are not in this country and who come here.

Shri K. K. Basu: Are we making specific provision to that effect?

Shri C. D. Deshmukh: That is what I am saying now. We should take care, that these are only in respect of the existing contracts and in the case of those whose homes are not in this country,

in the same way as we have proposed some concessions in regard to technicians.

The second point is this. So far as entertainment allowances are concerned, a deduction of 20 per cent of pay subject to a maximum of Rs. 7,500 should be made for those persons who were regularly in receipt of such entertainment allowances in the past. No such deduction will be admissible to new recipients of such allowances. As a result of this relaxation it will not be necessary to make any immediate changes in the structure of emoluments and the concession will die out, we hope, gradually.

In regard to the other perquisites, it is not my intention that a very meticulous appraisal or evaluation of this should be made. Such minor amenities as grant of reasonable medical facilities, provision of servants required exclusively for maintaining the owners' property, use of conveyance on business purposes, etc. will be ignored and suitable executive instructions will be issued in this regard. As regards provision of houses free of rent, the present practice of evaluating them at ten per cent of the occupiers' income when unfurnished and 2·5 per cent when furnished will be continued.....

Shri R. K. Chaudhuri: Will that apply to Members of Parliament also?

Shri C. D. Deshmukh: I think they get very much larger concession. It will be continued subject to the accommodation provided and the rent paid by the employer being reasonable.

* * * * *

APPENDIX XXII

Note from the Ministry of Finance (Department of Revenue) pursuant to action taken on para 73 of the Twenty-third Report regarding Income Tax Cases

In paragraph 73 of the Twenty-third Report of P.A.C. it has been observed that the rate of disposal between May 1956 to November 1956 is not such as to fulfil the expectation of the Department that all the cases taken over under Section 34(1A) would be completed before the end of this year. There are certain special reasons for this slow disposal during this period and therefore the disposal between May and November 1956 cannot be taken as an index of the pace of disposals by the Department. The main reason for the slackness during this period was the stay orders obtained by many assesseees in the various High Courts and Supreme Court of India through petitions challenging the power of Income-tax Department to transfer cases. As all the cases re-opened under Section 34(1A) were with the Income-tax Officers to whom they were transferred under the impugned Section, investigation was inevitably delayed till the final judgment of the Supreme Court was announced. This judgment came in December 1956 and the power of transfer given to the Department was upheld by the Supreme Court as *intra vires* of the Constitution. Now that this hurdle has been removed, the pace of disposal has quickened.

2. Secondly, in the cases in which stay orders have not been obtained, investigations had reached almost the final stage so that though these cases might not figure as disposals during this period, their completion in the subsequent months has served to push up the disposals after November 1956. This will be apparent from the figures given in the annexed statement showing the progress of cases up-to-date. It will be seen therefrom that the total number of cases completed (or about to be completed) comes to 102 after November 1956. There are other cases in which investigations are at a very advanced stage and the rate of progress shown for the past four months will be maintained, if not further accelerated, in future as well. In view of this, the Board does not feel that there will be much of difficulty in completing these cases before the expiry of this year.

3. With regard to the observations of the P.A.C. that the Department is continuing the full complement of staff as was engaged in the Investigation Commission, it may be pointed out that whereas the Commission had 27 Authorised Officials whose work was only confined to investigation of the cases entrusted to them for a specific period, the Department employs now 25 Income-tax Officers who are not only expected to pursue the investigations as vigorously as the Authorised Officials did but who are also saddled with the duties of completing the assessments of years which fall beyond the period of

investigation, attend to collection of tax and discharge other duties imposed upon them by the Statute. In spite of these difficulties the Income-tax Officers are concentrating on the investigations entrusted to them with a view to disposing of the assessments within the period specified by the Department.

4. In regard to realisation of demands raised by the Commission on settlement basis, all coercive recovery proceedings had been kept in abeyance pending a decision on the question whether the settlements arrived at by the Income-tax Investigation Commission, could be regarded as binding in spite of the fact that Sections 5(1) and 5(4) of the Commission Act had been declared invalid. The Attorney General has recently given his opinion that these settlements could be considered as valid and binding contracts and are thus enforceable. In view of this opinion, recovery proceedings are being initiated for the realisation of outstanding demands. Therefore no difficulties are anticipated in this regard also, as matters stand at present. The realisation of the Commission demands as at the end of February 1957 stands at Rs. 13·10 crores.

NEW DELHI,
8th May, 1957.

A. K. ROY,
Secretary.

ANNEXURE

1. Total number of cases taken over from I.T.I.C.	901
2. Number of cases in which action u/s 34(1A) of the I.T. Act has been taken	696
3. Number of cases found infructuous	205
4. Number of cases in which settlement application received	243
5. (a) Number of cases in which settlement applications have been disposed of	196
(b) Number of cases disposed of on non-settlement basis	95
6. (a) Concealment involved in cases shown against 5(a)	Rs. 11.80 crores
(b) Concealment involved in cases shown against 5(b)	Rs. 1.21 ,
7. Demand raised upto 31-3-57	Rs. 6.70 „
8. Collection upto 31-3-57	Rs. 3.88* „

*Out of this Rs. 2.5 crores has already been paid as a result of the demand raised by the Commission.

APPENDIX XXIII

No. F. 10(33)-B/57

New Delhi, the 13th March, 1958

Memorandum from the Ministry of Finance (Department of Economic Affairs) pursuant to action taken on para. 94 of the Twenty-third Report regarding Relief and Rehabilitation of Displaced Persons—Write off of loans advanced on the authority of Appropriation Acts.

In para. 94 of their Twenty-third Report, the P.A.C. observed that write off of loans advanced on the authority of the Appropriation Act should be made with the approval of Parliament and desired the Ministry of Finance to examine how such approvals ought to be obtained.

2. At present, provision for such write off of loans is made in the Demands for Grants presented to the Parliament, and apart from Parliamentary control over the total amount that may be written off against the provision, Parliamentary approval is not sought to the writing off of individual items of irrecoverable loan. Government agree in principle that Parliamentary approval should be taken in all cases where substantial sums of irrecoverable loans are proposed to be written off. They would, therefore, suggest for the consideration of the Committee the establishment of a convention on the following lines:

Budget provision will continue to be made in the Demands for Grants, as at present, in respect of writes-off of all loans, but all proposals involving individual writes-off of Rs. 1 lakh or more for which provision is proposed in the Budget estimates will be explained in the Budget documents, i.e., in the Explanatory Memorandum on the Budget. If, in the course of the year, new cases involving writes-off of loans of Rs. 1 lakh or over occur, such cases will be treated as expenditure on a "New Service" and a Supplementary Grant will be obtained for the full amount or for a token sum if the additional expenditure could be met from within the amount already voted by Parliament under the particular head.

3. This note has been seen and accepted by the Comptroller and Auditor-General.

H. S. NEGI,
Joint Secy

APPENDIX XXIV

Note from the Ministry of Finance (Rehabilitation Finance Administration) pursuant to action taken on para. 99 of the Fifteenth Report regarding High Establishment Charges

The Administration have already effected substantial reduction in their staff strength commensurate with the decrease in the volume of work, as would be evident from the following comparative statement showing the staff position during the last 3 years:—

Year	A Class Officers	B Class Officers	C Class Officers	D Class Officers	Total	Average Strength of cost per month
						Rs.
1953	23	157	331	157	668	1,44,000
1954	21	141	323	132	617	1,26,000
1955 (December)	9	99	251	91	450	1,08,500

2. Recently the Administration took the following steps to reduce the establishment costs further:—

- (1) The pay of the Chief Administrator has been reduced from Rs. 3,000 to Rs. 2,250 p.m.
- (2) The pay of the Deputy Chief Administrator has been reduced from Rs. 1,800 to Rs. 1,500 p.m.
- (3) Two posts of Assistant Chief Administrators carrying the pay scale of Rs. 800—50—1,150 have been abolished on the 20th November, 1955 and the 9th November, 1955. The post of Secretary carrying the pay scale of Rs. 650—50—850 which was kept in abeyance since 9-5-1953 was revived on 9-11-1955.
- (4) The special pay of Rs. 150 p.m. attached to the posts of Inspectors in charge of all sub-branches has been abolished.
- (5) The Karnal sub-branch has been closed and merged with Delhi Office; and
- (6) The status of Lucknow and Jaipur sub-branches has been reduced and these have now been placed under the charge of an Assistant Superintendent of Advances.

3. This note has been vetted by audit.

M. R. BHIDE,
Joint Secy.

APPENDIX XXIV-A

New Delhi, dated the 27th March, 1958

Note from the Ministry of Finance (Department of Economic Affairs) giving the number of loanees in each category and amount of loans advanced to each category under pages 4 and 5 of the Eighth Annual Report of the Rehabilitation Finance Administration

It has been stated at page 4 of the Report 'The loanees from East Pakistan can be classified in four broad categories'. What is the number of loanees in each category and amount of loans advanced to each category? How much of the interest and principal is overdue from the displaced persons from East Pakistan and how much from the displaced persons from West Pakistan?

The information asked for by the Public Accounts Committee is furnished below. This has been worked out by the Rehabilitation Finance Administration from the details available with them and indicates the position as on 31-12-1956. The classification of loans advanced to Eastern Pakistan displaced persons in four broad categories as mentioned in the Administration's Eighth Annual Report is not very precise as it was based on a general impression of the then Chairman and Chief Administrator regarding the position on East Pakistan loans and no data was prepared to arrive at any figures to support his conclusions. This fact should, therefore, be borne in mind in drawing conclusions from these figures.

	No. of borrowers	Amount of principal advanced in lakhs of Rs.	Amount involved in lakhs of Rs. (outstanding of interest & principal as on 31-12-56)
(a) Untracable borrowers who have either fled away to Pakistan or have gone underground	142	9.76	11.70
(b) Inexperienced loanees believed to have diverted major part of their loans towards personal expenses	762	56.34	65.17
(c) <i>Bonafide</i> businessmen or industrialists with previous experience—			
(i) who have failed due to severe competition in the market	828	184.53	{ 37.38 162.23
(ii) who have not yet failed, but are struggling	2241		
(d) Loanees who have made good use of the loan and have succeeded	924	78.37	82.92

2. As regards the figures of interest and principal overdue from displaced persons from East and West Pakistan, the information is as under:—

Overdue Loans as on 31-12-1956

	East	West
Principal	Rs. 118·63 lakhs	Rs. 237·85 lakhs
Interest	30·60 „	64·39 „

3. This note has been vetted by Audit.

S. VOHRA,
Joint Secy.

The 27th March, 1958.

APPENDIX XXV

Note from the Ministry of Finance (Rehabilitation Finance Administration) pursuant to action taken on para. 94 of the Fifteenth Report regarding delay in issuing loans

Loan applications are, no doubt, examined carefully in the Rehabilitation Finance Administration to see whether they fulfil the prescribed conditions for the grant of loans. The question whether the condition regarding the production of acceptable guarantors by the applicants at the time of making loan applications should be enforced has been considered by the Administration more than once in the past. It has been reiterated by the Administration that the question of settlement of guarantors should be considered after the sanction of the loan and not before it. The reasons in support of the Administration's views are as under:—

- (i) As loans are sanctioned only to about 24 persons out of every 100 applicants (23·4 per cent. to be exact), to settle the question of guarantor beforehand would involve infructuous work in respect of 76·6 per cent. of the cases.
- (ii) It is in the interest of the applicants that the question of guarantors is settled after the loan is sanctioned. In a great majority of the cases, the applicants generally apply for a very large loan. The size of the loans sanctioned by the Administration is, however, very much lower than what the applicants applied for. A person who will be competent to guarantee a loan of, say, Rs. 8,000 may not be so if the loan is for Rs. 25,000. After an applicant knows exactly the amount of the loan sanctioned to him, it is easier for him to produce a guarantor acceptable to the Administration.
- (iii) It is a common knowledge that the loanees have to incur a certain amount of expenditure in securing a guarantor. If, therefore, the principle of settling the guarantor before sanction is introduced, an applicant runs the risk of incurring unnecessary expenditure if ultimately his application is rejected.
- (iv) An applicant may produce the consent of a very good guarantor having plenty of assets in order to influence the decision of the Administration by offering a good security. As, however, previous consent of a person is not legally enforceable, the Administration may have to incur extra expenditure in investigating into the merits of a substitute guarantor offered by an applicant if and when the original consentee refuses to stand as security

2. It will thus be seen that it would not be fair to require all the applicants to produce acceptable guarantors at the time of making loan applications. It is, therefore, submitted for the consideration of the Public Accounts Committee that the rule that no loan should be sanctioned unless an applicant has produced an acceptable guarantor need not be enforced as it may not lead to any expedition in the disposal of loan applications, and the trouble and expense to which the applicants will be subjected to in this connection will not be commensurate with the results achieved.

3. This note has been vetted by Audit.

Sd./- M. R. BHIDE,
Joint Secy

A note has already been submitted to the Public Accounts Committee with regard to recommendation contained in sub-para 1 above.

2. In so far as sub-para. 2 of the above recommendation is concerned, it may be stated that the Rehabilitation Finance Administration in consultation with the Advisory Board have from time to time considered the question of simplification of the procedure for processing of loan applications and have effected certain changes in this regard. The Administration appointed a sub-committee in January 1955 to examine the procedure of dealing with loan applications. Copy of the report of the sub-committee is enclosed herewith. The Rehabilitation Finance Administration have considered the report of the sub-committee and have approved it. A copy of this report was forwarded by us to the Comptroller and Auditor General on the 31st January, 1956 requesting him for comments, if any, at an early date. It was intended that discussions as required by the Public Accounts Committee would be held on receipt of the comments of the Comptroller and Auditor General at which besides the Comptroller and Auditor General the Chief Administrator, Rehabilitation Finance Administration was also to be invited. In spite of several reminders, the Comptroller and Auditor General has not furnished us his comments as yet.

3. In the meantime, however, consequent on the recommendation contained in paragraph 100 of the Public Accounts Committee's 15th report, it has been decided to set up a departmental committee consisting of a Joint Secretary, of the Ministry of Finance (Shri M. R. Bhide, I.C.S.) and a representative of the Comptroller and Auditor General (Shri P. C. Padhi) whose terms of reference are broadly to review the working of the Rehabilitation Finance Administration with a view to making recommendations to effect improvements in it with particular reference to prompt disposal of loan applications and simplifications of procedure for scrutiny of applications and disbursement of loans. Further action on the recommendation contained in sub-para 2 above will consequently be taken on receipt of the Committee's report and the Public Accounts Committee apprised of the simplification effected in the procedure for disposal of loan applications in due course.

Sd./- M. R. BHIDE,
Joint Secy.

APPENDIX XXVI

Note from the Ministry of Finance (Industrial Finance Corporation) pursuant to action taken on para. 102 of the Fifteenth Report regarding provision for bad and doubtful debts

With this Ministry's Office Memorandum No. F.2(83)/FIII/55, dated the 16th April, 1956 a statement was submitted to the Public Accounts Committee showing action taken or proposed to be taken on the recommendations of the Public Accounts Committee made in the 15th report. Item 1 of the statement dealt with the recommendation contained in para. 102 of the report. The Public Accounts Committee was informed by us as under:—

“The recommendation is accepted in principle and the formula will be devised in consultation with the Comptroller and Auditor General.”

2. The Comptroller and Auditor General was requested to communicate to us his views on the formula proposed by us for determining the quantum of the provision to be made for ‘bad and doubtful debts’ on the basis of assessment after reviewing each individual case of loan, together with the auditors of the Corporation, in the light of the position of repayment of each individual loan. It was intended that on receipt of the views of the Comptroller and Auditor General we would arrange for a discussion with the Comptroller and Auditor General and the Industrial Finance Corporation. We have since received the Comptroller and Auditor General's reply which is reproduced below for the information of the Public Accounts Committee:—

“The position in regard to the provision for bad and doubtful debts is likely to vary from year to year depending on the worth of the security mortgaged and the financial position of the debtors and guarantors. It is not possible, therefore, to prescribe a formula in respect of such provision. The provision has, however, to be made after assessing and reviewing each individual case of loan in the light of the existing position of repayment of each individual debtor.”

In view of the above reply of the Comptroller and Auditor General, it is not possible to prescribe a formula in regard to the provisions for ‘bad and doubtful debts’ and we do not propose to pursue this question any further.

M. R. BHIDE,
Joint Secy.

APPENDIX XXVII

*Note from the Ministry of Finance (Industrial Finance Corporation)
pursuant to action taken on para. 107 of the Fifteenth Report
regarding percentage of establishment charges of the I.F.C.*

A comparative statement showing the proportion that 'the establishment charges' bear to 'the total expenses' in the Industrial Finance Corporation and other similar institutions both in our country and outside, based on the information available is enclosed. It will be observed that the proportion in the case of Industrial Finance Corporation compares well with that of other similar institutions except those in U.S.A. and Ceylon. We have not got sufficiently intimate knowledge of the working of these institutions and their rules and practices to be able to attempt an explanation for the difference, but in the case of institutions in the U.S.A., the proportion is perhaps relatively smaller on account of the magnitude of the lending operations. and in the case of the Ceylon Corporation, the establishment charges are low, probably for the reason that the area covered by the Corporation is relatively small and, therefore, requires little supervision. It will thus be observed that the percentage of establishment charges of the Corporation as compared to its working expenses are not on the high side and compare favourably with the working of similar institutions in many other countries.

D. L. MAZUMDAR,
Secretary.

Serial No.	Name of the Institution	Year ended	Establishment Expenditure	Total Expendi- ture	Percentage of Establish- ment Expendi- ture to Total Expendi- ture
1	2	3	4	5	6
1.	Federal National Mortgage Association U.S.A. (A wholly owned Government Corporation engaged in purchasing, holding and reselling mortgages)	30-6-1953	\$3,671,400	\$ 59,055,066	6.22
2.	Export-Import Bank of Washington (An independent Agency engaged in financing and facilitating exports and imports and exchange of commodities and services in foreign trade)	31-12-53	\$1,079,000	\$ 26,336,000	4.10

1	2	3	4	5	6
3.	Industrial & Commercial Finance Corporation Ltd., U.K.	31-3-1956	£173,200	£869,333	19.92
4.	Pakistan Industrial Finance Corporation	30-6-1953	P.Rs. 156,567	P.Rs. 377,489	41.48
5.	The Agricultural & Industrial Credit Corporation of Ceylon	30-9-1954	C.Rs. 127,510	C.Rs. 1,175,184	10.85
6.	Industrial Credit & Investment Corporation of India Ltd.	31-12-1955	I.Rs. 360,000	I.Rs. 564,965	63.72
7.	Industrial Finance Corporation of India	30-6-1954 30-6-1955	Rs. 511,351 Rs. 587,773	Rs. 3,255,745 Rs. 3,601,894	15.71 16.32

APPENDIX XXVIII

Agreement entered into by the Industrial Finance Corporation with the Asahi Glass Company Limited for the purchase of the assets of the Sodepur Glass Works as furnished by the Ministry of Finance (Industrial Finance Corporation)

AN AGREEMENT made this 6th day of July One thousand nine hundred and fifty-six BETWEEN THE INDUSTRIAL FINANCE CORPORATION OF INDIA, a Corporation incorporated under the Industrial Finance Corporation Act 1948 and having its Head Office at U.S. Hospital Building, Keeling Road, in New Delhi hereinafter called the "CORPORATION" of the One Part and ASAHI GLASS COMPANY LIMITED a joint stock company incorporated in Japan and having its registered office at 1, 4 Chome, Ginza, Chuo-Ku in the city of Tokyo in Japan as trustees and on behalf of the Indian Company mentioned below:—

WHEREAS—

A. The Sodepore Glass Works Limited, a Joint Stock Company having its registered Office at Calcutta, mortgaged to the Corporation *inter alia* ALL AND SINGULAR lands, hereditaments, factory building, plant, machinery, tools, instruments, equipments, utensils, implements, accessories and other properties and assets situated at Sodepore and at Bhurkunda in the states of West Bengal and Bihar respectively in favour of the Corporation by several Mortgage Deeds bearing date the 13th September, 1949 registered at Calcutta in Book No. 1, Volume No. 90, pages 38 to 144 being No. 3031 for the year 1949, the Mortgage Deed, dated the 18th December, 1951 registered at Calcutta in Book No. 1, Volume No. 105, pages 151 to 219 being No. 4352 for the year 1951, Mortgage Deed, dated the 12th June, 1952 registered at Calcutta in Book No. 1, Volume No. 77, pages 16 to 97 being No. 1908 for the year 1952, Deed of Additional Security, dated the 29th August, 1952 registered at Calcutta in Book No. IV, Volume No. 34, pages 267 to 275 being No. 3776 for the year 1952, Mortgage Deed, dated the 10th February, 1953, registered at Calcutta in Book No. 1, Volume No. 34, pages 63 to 128 being No. 488 for the year 1953.

B. The Sodepore Glass Works Ltd., *inter alia* made default in payment of the principal sum and interest to the Corporation in accordance with the terms of the above said Mortgage Deeds and in the exercise of the powers vested in the vendor by virtue of the terms of the Mortgage Deeds, the Transfer of Property Act and the Industrial Finance Corporation Act 1948, the Corporation took over management of the said Company with effect from the 19th March, 1953.

C. The Corporation has spent large sums of money as costs, charges and expenses as incidental to the said management of Messrs. Sodepore Glass Works Ltd., in respect thereof also it has a charge on all the said mortgaged properties comprised in the said several Indentures of Mortgage hereinbefore mentioned.

D. By virtue of the aforesaid Mortgage Deeds, the Transfer of Property Act and the Industrial Finance Corporation Act 1948, the Corporation has power to dispose of the said mortgaged property.

E. A. Company to be called Company Limited (hereinafter called the Indian Company) is about to be formed or promoted by the Asahi Glass Co. Limited under the Indian Companies Act, 1913 having for its objects among other things, the acquisition and working of the business of manufacturing all varieties of glass and glassware.

F. The Capital of the Indian Company will be Rs. 65,00,000 (Rupees Sixtyfive lakhs only) divided into 6,50,000 shares of Rs. 10 (Rupees Ten only) each.

G. It has been agreed that the Corporation shall advance to the Indian Company the sum of Rs. 62,00,000 (Rupees Sixtytwo lakhs only) with a view to enabling the Indian Company to purchase the assets of Sodepore Glass Works Ltd. as hereinafter provided as also a further sum of Rs. 7,00,000 (Rupees Seven lakhs only) with a view to enabling the Indian Company to put the plant and machinery hereinafter referred to in order and to commence its business at an early date and that such advances shall be secured in manner hereinafter appearing.

H. In the Articles of Association of the Indian Company, it will be provided that the Company shall immediately after the incorporation thereof adopt the agreement, being these presents in so far as the provisions hereof may be applicable to the Indian Company.

I. The Asahi Glass Co. Ltd. has on or about 16th August, 1955 deposited with the Calcutta Office of the Corporation a sum of Rs. 2,00,000 (Rupees Two lakhs only) as security and on the terms and conditions hereinafter stated.

NOW IT IS HEREBY AGREED AND DECLARED by and between the parties to these presents as follows:—

1. The said sum of Rs. 2,00,000 (Rupees Two lakhs only) (deposited as aforesaid by the Asahi Glass Co. Ltd. (hereinafter called the Company) shall remain as security for the due fulfilment of the obligations of the Company under this Agreement. This sum will be refunded after the purchase deed and mortgage hereinafter mentioned have been completed and the Bank guarantee hereinafter provided for the repayment of the loan to be advanced by the Corporation to the Indian Company has been given and the Company has taken all necessary action, which they are in the opinion of the Corporation required to take, to make the agreement effective. The deposit will also be liable to be refunded, if permission of the Government of India or of Government of Japan to float the Indian Company is refused.

2. The Asahi Glass Co. Ltd. will before the 16th May, 1956 float a public limited company in India to be called herein called the "Indian Company" which will purchase from the Corporation as Mortgagees the following assets:—

- (i) Glass Factory of the Sodepore Glass Works Ltd., at Sodepore consisting of about 51 Bighas of land, the factory

and other buildings and structures and the plant and machinery etc., of the said glass factory.

- (ii) Sheet glass factory of the Sodepore Glass Works Ltd., at Bhurkunda (Eastern Railway) near Ramgarh in Bihar consisting *inter alia* of land measuring about 46 acres, factory and other buildings and structures and plant and machinery and furnace for the manufacture of sheet glass together with all equipments and accessories and all easements, pipelines and dam.
- (iii) Plant and machinery for the manufacture of bottle glass lying at the Bhurkunda Factory of the Sodepore Glass Works Ltd.
- (iv) Plant and Machinery for the manufacture of figure glass lying at the Bhurkunda Factory of the Sodepore Glass Works Ltd.

"Plant and Machinery" mentioned above comprises of engines, machinery, plant, electric and other installation, implements, equipments, tools, utensils, fittings, fixtures, motor cars, trucks, calculating machines, weighing machines, furniture, building materials, stores, machinery spares and machinery stores accessories, raw materials, articles and other effects.

3. The Asahi Glass Co. Ltd., Tokyo have caused to be investigated the title of the Sodepore Glass Works Ltd., to the assets to be sold to the Indian Company and are satisfied therewith and the Indian Company will accept the title as it is and will not raise any objection thereto. The said Asahi Glass Co. Ltd., have also satisfied themselves as to the right of the Corporation to sell the assets as mortgagees and under the Industrial Finance Corporation Act. They have also inspected the plant and machinery agreed to be sold and the Indian Company will purchase them in such condition as in which they may be at the time of purchase and notwithstanding any error or mis-statement of description, broken or missing parts or structures. An inventory of the plant (Sodepore as at the end of November 1954 and Bhurkunda as on 31-8-1954) is hereto annexed and marked "A" which represents approximately the plant and machinery which are agreed to be sold as hereinbefore stated. The property at Sodepore, 24 Parganas, West Bengal, is to be sold to the "Indian Company" subject to an existing tenancy in favour of Messrs. Krishna Chemical Works Ltd. in respect of a small portion thereof measuring 378 sq. ft. The Indian Company will bear and pay the stamp, registration fees and other expenses and other solicitors' charges of and incidental to the purchase.

4. The Corporation will grant a loan to the Indian Company of an amount equal to the purchase price of the assets of the Sodepore Glass Works Limited to be sold by them, on the Indian Company executing a mortgage in the Standard for the Corporation a copy of which has been appended hereto as Annexure "B" in favour of the Corporation of the said assets.

The loan will bear interest of 3½ per cent. per annum and will be repaid by the Indian Company by yearly instalments hereinafter mentioned, the first of such instalments to be paid on the expiry of

two years from the date of the loan and the subsequent instalments to be paid every succeeding year in the manner herein described, namely:—

Date of repayment			Amount of instalment	
			Rs.	
On the expiry of 2 years from the date of the loan Rs. 2,20,000/- (Rupees two lakhs twenty thousand only)				
Do.	3	Do.	Rs. 2,20,000/-	(Rupees two lakhs twenty thousand only)
Do.	4	Do.	Rs. 2,20,000/-	(Rupees two lakhs twenty thousand only)
Do.	5	Do.	Rs. 2,20,000/-	(Rupees two lakhs twenty thousand only)
Do.	6	Do.	Rs. 4,80,000/-	(Rupees four lakhs eighty thousand only)
Do.	7	Do.	Rs. 4,80,000/-	(Rupees four lakhs eighty thousand only)
Do.	8	Do.	Rs. 4,80,000/-	(Rupees four lakhs eighty thousand only)
Do.	9	Do.	Rs. 4,80,000/-	(Rupees four lakhs eighty thousand only)
Do.	10	Do.	Rs. 4,80,000/-	(Rupees four lakhs eighty thousand only)
Do.	11	Do.	Rs. 4,80,000/-	(Rupees four lakhs eighty thousand only)
Do.	12	Do.	Rs. 4,80,000/-	(Rupees four lakhs eighty thousand only)
Do.	13	Do.	Rs. 4,80,000/-	(Rupees four lakhs eighty thousand only)
Do.	14	Do.	Rs. 4,80,000/-	(Rupees four lakhs eighty thousand only)
Do.	15	Do.	Rs. 4,80,000/-	(Rupees four lakhs eighty thousand only)
Do.	16	Do.	Rs. 3,80,000/-	(Rupees three lakhs eighty thousand only)
Do.	17	Do.	Rs. 1,40,000/-	(Rupees one lakh forty thousand only)
			Rs. 62,00,000/- (Rupees Sixty two lakhs only)	

The interest will commence from the date of execution of the mortgage by the Indian Company and will be payable half-yearly on the 28th June and the 28th December of each year the first of such payments to be made on the 28th June or the 28th December immediately following the date of execution of the Mortgage Deed. The stamp and registration fees and all expenses of the Mortgage including the costs and solicitors' charges of the Corporation in respect of the mortgage shall be paid by the Indian Company.

5. After the completion of the repayment of the loan, the Indian Company will be reconstructed so as to provide for 51 per cent. of its share capital being contributed in India.

6. For the due repayment of the loan, the assets of the Sodepore Glass Works Limited agreed to be taken over by the Indian Company will be mortgaged in favour of the Corporation simultaneously with the execution of the purchase deed in favour of the Indian Company by the Corporation. The Indian Company will further furnish a Bank Guarantee acceptable to the Corporation full covered against advances made by it in the event of non-compliance of the terms

of the Mortgage Deed executed by the Indian Company. In the event of the Corporation effecting a forced sale of the assets mortgaged to it by the Indian Company and if the proceeds of such a forced sale exceed the amount due to the Corporation, the Bank Guarantee furnished by the Indian Company shall further be entitled according to law to any excess amount left over out of the sale proceeds after satisfying the dues of the Corporation.

7. The Corporation will further advance to the Indian Company by way of a loan, a sum of Rs. 7 lakhs bearing interest at 6 per cent. per annum to enable the Indian Company to put the plant and machinery in order and to commence business at the earliest possible date. As security for this loan, the Indian Company will mortgage in favour of the Corporation the assets mentioned in clause 2 hereof and will furnish a Bank Guarantee acceptable to the Corporation covering 100 per cent. of the loan advanced. The Indian Company will execute a Mortgage in favour of the Corporation of the said assets in the standard form of Mortgage of the Corporation appended hereto as Annexure "B" for securing repayment of the said loan for Rs. 7,00,000 (Rupees Seven lakhs only) and such mortgage shall rank *pari passu* with the mortgage for securing repayment of the loan for Rs. 62,00,000 (Rupees Sixtytwo lakhs only). The loan for Rs. 7,00,000 (Rupees Seven lakhs only) will be repayable on terms and conditions and in the manner to be mutually settled between the parties hereto.

8. The transfer of the assets to be sold under this agreement shall take place within two months of the formation of the Indian Company and delivery of possession shall be made immediately on the completion of the necessary instruments of transfer. Until such delivery is made, the Corporation will remain responsible to maintain intact all the properties and assets to be sold in reasonable state of repairs. All the expenses incurred during a period of three months from date of the deposit of the sum of Rs. 2,00,000 (Rupees Two lakhs only) mentioned in clause 1 above will be borne by the Corporation and thereafter such expenses shall be borne by the Indian Company. The Corporation will remain responsible for the principal items of the assets sold and the Asahi Glass Company Limited will make their own arrangements to see that the assets agreed to be sold remain intact until the delivery of the possession is given by the Corporation.

9. The purchase price of the assets sold has been fixed at Rs. 62,00,000 (Rupees Sixtytwo lakhs only) which has been agreed upon between the Corporation and the Asahi Glass Company Ltd.

10. The purchase of the properties shall be free from all encumbrances. The Indian Company will not be liable and will be free from all responsibilities and liabilities in the matter of any existing or future disputes between the Corporation and the former management or any other parties.

11. The Corporation undertakes to render all assistance to the Indian Company in securing approval from the Government of India in respect of the following facilities for the Company:—

- (a) Permission to recruit and bring from Japan technicians and other required personnel for starting and running

the concern and facilities for Japanese technicians and their families to come and stay in India.

- (b) Permission under the Indian Law to run the Factory.
- (c) Permission for the import of any Japanese machinery that may be necessary for the purposes of the business.
- (d) Securing the permission of the Controller of Capital Issues for floating the Indian Company and expediting the formation of the Company.
- (e) Permission and facilities for remittance of dividends and return of capital brought from Japan.

12. The Company undertakes to do all that lies in their power to:—

- (a) secure the approval of the Government of Japan for floating the Indian Company.
- (b) secure permission from the Government of Japan to do all acts and things necessary for starting the factory including bringing of capital from Japan.
- (c) use utmost expedition in starting and running the factory in India.

13. All terms and conditions accepted by Asahi Glass Co. Ltd., herein will develop on and be binding on the Indian Company when it comes into being.

14. Should any dispute arise between the Company or the Indian Company and any other parties concerning the assets of the Sodepore Glass Works Ltd., to be taken over by the Indian Company or the conduct of the business of the Indian Company, with any third party or parties, the Corporation shall use its good offices to ensure amicable settlement.

15. Notwithstanding anything to the contrary elsewhere in these presents contained the Corporation shall refund to the said Asahi Glass Co. Ltd., the said security deposit if—

- (i) The Indian Company is not incorporated as a result of Refusal on the part of the Government of India or the Government of Japan to sanction the incorporation of the Indian Company.
- (ii) The assets of Sodepore Glass Works Ltd., are destroyed or rendered unfit for use as a result of fire, tempest, flood, earthquake, mob violence, Act of Government or any other irresistible force before the sale is completed.

Subject as aforesaid, the Corporation shall be entitled to forfeit the said security deposit in the event of Asahi Glass Co. Ltd. or the Indian Company committing any breach of the provisions of this Agreement and on the part of either of them to be observed and performed.

16. The terms of this agreement may be varied with the consent of both the parties.

IN WITNESS WHEREOF the Common Seal of the Industrial Finance Corporation of India has hereunto been affixed and these presents have been signed and executed by the Asahi Glass Company Ltd., the day, month and the year first above written.

The Common Seal of the above mentioned Industrial Finance Corporation of India was pursuant to a resolution of the Board of Directors of the Corporation. the Corporation passed in that behalf on the 26th June, 1956 hereunto affixed in the presence of Sd./- M. R. Bhide. M. R. Bhide, a Director of the Corporation.

Signed by M. R. Bhide, a Director of the Corporation in the presence of—

(1) Witness H.V.

(2) Witness.

Signed and delivered by the said Asahi Glass Company Ltd. through Motocharu Kurata, the Managing Director of the Company pursuant to the resolution of the Board of Directors of the Company, dated the Second day of April, 1956. In the presence of—

(1) Witness. (Sd./-) *Director, Administration.*

(2) Witness. (Sd./-) *Director, Glass Manufacturing.*

APPENDIX XXIX

Note from the Ministry of Finance (Industrial Finance Corporation) stating the latest position in regard to the floating of the Public Limited Company in India by the Japanese firm.

The latest position in regard to the floating of the Public Limited Company in India by the Asahi Glass Company Ltd. is as follows:—

In accordance with the terms and conditions laid down in the agreement, dated the 6th July, 1956 entered into between the Corporation and the Asahi Glass Company Ltd. the latter were to promote an Indian Company before the 16th May, 1956 and the transfer of the assets to be sold under the agreement was to take place within two months of the formation of the Indian Company.

The Asahi Glass Company Ltd. had proposed to promote the Indian Company with a capital of Rs. 65 lacs out of which Rs. 30 lacs was to be contributed in India and the balance of Rs. 35 lacs was to be taken up by the Japanese concern, partly to the extent of Rs. 17 lacs against machinery, equipment and materials to be brought in from Japan, and partly to the extent of Rs. 18 lacs by providing the technical know-how.

In regard to the machinery, equipment and materials of the value of Rs. 17 lacs proposed to be brought in by the Asahi Glass Company Ltd., the Development Wing of the Ministry of Commerce and Industry have examined and approved the items proposed to be brought in. The Japanese Company have already been granted the necessary licences for the import of the machinery, equipment and materials in question.

The proposals of the Asahi Glass Company Ltd. for the promotion of the Indian Company have been approved by the Government of India in the Ministry of Finance.

The Asahi Glass Company Ltd. reported to the Corporation towards the end of May, 1956, that they were facing some difficulties in securing subscription from Indian investors to the share capital of the Indian Company to the extent of Rs. 30 lacs, but that they had decided to go through with the scheme even if it involved their bringing in additional finance themselves in order to make up the deficit in the subscription of the share capital. They, therefore, wanted extension of time till 31st July to enable them to make the necessary arrangements for this. This was granted. They have now informed us that the shortfall will be taken care of by their arranging for bank credit locally against guarantees to be given by their Head Office in Tokyo, and that they have received the approval of the Japanese Government to this. It is expected that the necessary formalities in connection with the registration of the Indian Company will be completed in the course of the next few days. The

Asahi Glass Company Ltd. have filed necessary documents with the Registrar of Companies, Calcutta on 3rd August, 1956 regarding registration of an Indian Company by the name of Indo-Asahi Glass Company Ltd. and it is expected that the necessary certificate regarding incorporation will be granted shortly.

As regards the date from which the factory is likely to go into production, the position is as follows:—

According to the agreement, dated 6th July, 1956 entered into between the Asahi Glass Company Ltd. and the Corporation, the transfer of the assets is to take place within two months of the formation of the Indian Company. Since the Indian Company is expected to be registered within the next few days, it is expected it should be possible to arrange for the transfer of assets to be completed by the end of October, 1956. The Indian Company, after taking over the assets, will have to put the plant and machinery in order, and for that purpose the Corporation has agreed to grant them a further loan of Rs. 7 lacs. It is not possible to give any definite opinion regarding the date by which all the machinery will be put in position so as to enable normal production to be commenced, but it may not be overoptimistic to hope that the factory might start production by about March, 1957. In this connection, it may be added that the Japanese Company are committed to bear the liability for the entire amount of expenditure incurred on the care and maintenance of the factory since the 16th November, 1955. Some of the Company's engineers arrived in the factory a couple of months ago with a view to surveying the machinery etc., and it is, therefore, hoped that the final process of putting the machinery etc. in working order will now be expedited.

M. R. BHIDE,
Joint Secy.

APPENDIX XXX

Note from the Ministry of Finance (Industrial Finance Corporation) stating the latest position regarding the action taken or proposed to be taken for making good the loss sustained by the Corporation in their deal with the Sodepore Glass Works Ltd.

The Legal Adviser of the Corporation was consulted in regard to the action that may be taken against the guarantors and he has given the opinion that the balance of advantage will lie in the Corporation first disposing of the mortgaged property and thus exhausting the remedies available to it against the mortgaged property and afterwards, in case there was any deficit, filing a suit against the Company as well as the guarantors jointly for the recovery of the balance due from the Company. The Corporation have decided to accept this opinion.

2. Two statements showing the names of guarantors, the loans guaranteed by them, the particulars of the properties mortgaged by two of them in support of the guarantee, and the other moveable and immovable properties of the guarantors which could be proceeded against by the Corporation as per information we have been able to collect are enclosed—Appendices A & B. As regards the properties of the late Shri_____and Shrimati_____mortgaged to the Corporation in support of guarantees executed by them it has been reported to the Corporation as follows:—

“It appears that there are no immovable assets of late_____, late_____, his wife,_____and Shri_____against which the Corporation can proceed other than the immovable properties already mortgaged with the Corporation.

The properties of late_____which are mortgaged with the Corporation are situated in the Districts of Gaya, Ranchi and at Jahanabad which is a grain centre situated about 27 miles from Gaya on the Gaya-Patna Railway line. The properties of_____mortgaged to the Corporation are situated in the Gaya town.

The opinion of the local Managers of the Punjab National Bank and the Central Bank of India about the prospects of sale of immovable properties in Gaya was that since the abolition of Zamindary in Bihar it was not easy to sell immovable properties. There are very few buyers and it is difficult to realise any reasonable price. The population of Gaya is reported to be about 125,000. The population of Jahanabad is reported to be about 40,000.”

3. The transaction relating to the sale of assets of the Company was completed on the 3rd May, 1957, and possession of the assets was handed over to the Indo-Asahi Glass Co., on the same day.

4. The Corporation has been examining the legal issues that it has reason to suspect may be raised by the Guarantors in case it is decided to enforce the guarantees against them. It appears from the discussions the Corporation had with two of the guarantors that the following points may be raised:—

- (i) Since the Corporation had disposed of the mortgaged properties for Rs. 62 lacs, a sum more than the amount covered under the various guarantees (50 lacs), the guarantors were discharged of their liabilities.
- (ii) Sub-section (3A) of Section 28 of the I.F.C. Act was inserted by Act 78 of 1952 on 29th December 1952 i.e. subsequent to the execution of the Deed of Mortgage and Deed of Further Charge for the first three loans aggregating Rs. 50 lacs. The amendments of the Act do not have retrospective effect and as such the sale proceeds cannot first be applied for adjusting A/c. No. 5 (Expenses for Management).
- (iii) The Deed of Mortgage dated the 13th September, 1949, laid down certain specific stipulations under which and the manner in which the loans were to be obtained by the Sodepore Glass Works Ltd., and/or given by the Industrial Finance Corporation. Since these conditions were not fulfilled, Shri——— a guarantor of the loan could not be asked to fulfill his guarantee, as it is a settled principle of law that if there is any variation in the terms of contract without the consent of the guarantor then the guarantor stands discharged.
- (iv) The decrees, which the Corporation may get against the properties of Shri——— would not bind the minors i.e. two brothers of Shri——— who were minors at the time of the transaction and his two sons who are still minors. The Corporation may, therefore, get a decree against only a share of the properties of Shri———.

5. Since these points are of great importance, it was considered desirable to have them examined by the Corporation's Legal Adviser as well as the Law Ministry of the Government of India.

In the opinion of the Corporation's Legal Adviser as well as the Ministry of Law the adjustment of the Sale proceeds as has been done by the Corporation is in order. The Ministry of Law is also of the opinion that the insertion of Sub-Section (3A) under Section 28 of the I.F.C. Act has retrospective effect. A statement showing the manner in which the Sale Proceeds have been adjusted is shown in the enclosed statement—Appendix C. Points Nos. (iii) and (iv) are still under examination.

6. The procedure to be followed by the Corporation in the matter of filing suits against the Company and the guarantors is being examined in consultation with the Corporation's Solicitors in Calcutta, who are also Solicitors to the Central Government at that place and the Legal Adviser of the Corporation at its Head Office.

7. The Corporation is also considering whether it would serve its interests better if a compromise is arrived at with the guarantors. The Chairman of the Corporation enquired of one of the Guarantors when he saw him whether in view of the action the Corporation has now got to take to enforce the guarantee, he was inclined to make any proposals for compromise so that the matter could be settled out of Court. Without prejudice to the right and remedy which either party may have, this Guarantor stated that the maximum amount he would agree to pay to the Corporation in full release of his guarantee is Rs. 25,000 if this was found acceptable to the Corporation. The Chairman also enquired of another Guarantor when he met him in May, 1957, the amount he would be prepared to offer to arrive at a compromise with the Corporation. He replied that the amount he may be willing to offer "would bear no relation to the deficit in the account of Sodepore Glass Works Ltd." He was advised to consider the matter and advise the Corporation of the amount he would offer but he has not intimated the same so far. If no compromise is possible on reasonable terms it may be necessary to file regular suits against the Company and the guarantors. It cannot, however, be stated definitely at this stage what portion of the deficit is likely to be realised either by a compromise with the guarantors or legal action against them. It may take sometime before a final decision in this matter can be taken and in case it is decided to take this matter to Court, it is anticipated that the same will be resisted by the Guarantors and Court proceedings might drag on for several years.

8. The total unsecured liabilities of the Company as per the latest Printed Balance Sheet as at 31st December, 1955 amounted to Rs. 31,93,000.

9. This note has been vetted by Audit.

K. R. K. MENON,
CHAIRMAN,
INDUSTRIAL FINANCE CORPORATION.

APPENDIX 'A'

Particulars of immovable property of Guarantors	Particulars of moveable properties of guarantors	Remarks
No properties other than the properties said to be worth Rs. 9 lacs. mortgaged to the Corporation.	Nil.	Nil.
	7) Shares of Gaya Sugar Mill (in liquidation)—Extent of the holdings could not be ascertained.	The shares are encumbered and it will not be possible for the Corporation to realise any amount from there.
	iii 1000 shares of the paid-up value of Rs. 10,000/- in the Hindusthan Coal Co. Ltd.—already pledged with the Corporation. The extent of the holdings, over and above these shares, of the late——— and of Shri —— in the Hindusthan Coal Co. Ltd. is not known. Nor is it known whether such holdings are free or encumbered.	
House Property at Traverse Road, Panihatti Municipality, 24-Parganas, West Bengal.	Nil.	Reported to have been transferred to M's. Bhadani Properties Ltd.
No properties other than the properties mortgaged to the Corporation.	Nil.	Nil.
Reported to own a house in Bombay.	Nil.	It is not possible to confirm this report.
Land at Tallygunge, Calcutta admeasuring 4 Bighas, and 9 Cottahs 4 Chittacks & 36 sq. ft. purchased in 1948 for Rs. 1,25,020/-.	a) 1500 shares of M s. Bengal Potteries Ltd. of face value Rs. 3,750 -. (b) 270 ordinary shares of M/s. Jay Engineering Works Ltd. of the aggregate paid up value of Rs. 27,000/-. c) 10 shares of M s. M. G. Bhagat & Sons Ltd. of face value Rs. 1,000/-.	

APPENDIX 'B'

Sl. No.	Loan of Rupees	Mortgage Deed	Deed of Guarantee	Guarantors	Period of limitation for taking action against guarantors	Time from which period mentioned in col. 6 begins to run
1	2	3	4	5	6	7
1.	40,00,000	13-9-1949	13-9-1949 (Registered) (Merged with the Mortgage Deed).	<i>Personal Guarantee of:</i> (i) (to the extent 5 years. of Rs. 9 lacs) (ii) (iii) (iv) (Properties of... and... mortgaged).		from date of demand made on them i.e. 19th February, 1953.
2.	1,00,000	18-12-1951	18-12-1951 (Registered)	<i>Personal Guarantee of:</i> (i) 6 years. (ii) (iii) (iv)		from the date of the demand on them i.e. 19th February, 1953.
3.	3,00,000	12-6-1952	12-6-1952 (Registered) (guarantees the previous loans also).	(i) 6 years (ii) (iii) (iv)		from the date of the demand on them i.e. 19th February, 1953.
4.	13,00,000	10-2-1953	No Guarantee	Nil.		

APPENDIX 'C'

SODEPORE GLASS WORKS LTD.

	Principal	Interest upto 30-6-53 charged to accounts	Total	Amount of sale proceeds adjusted	Balance outstanding
A/c No. 1	40,00,000	6,28,921.44	46,28,921.44	..	46,28,921.44
A/c No. 2	7,00,000	60,074.61	7,60,074.61	4,88,399.28	2,71,675.33
A/c No. 3	3,00,000	317,776.20	3,17,776.20	3,17,776.20	..
A/c No. 4	12,92,536.98	36,177.10	13,28,714.08	13,28,714.08	..
A/c No. 5					
Management ex- penses in- curred upto 3rd May, 1957	40,65,110.44	13,335.39	40,78,445.83	40,65,110.44	13,335.39
	<u>103,57,647.42</u>	<u>7,56,284.74</u>	<u>111,13,932.16</u>	<u>62,00,000.00</u>	<u>49,13,932.16</u>
Expenditure incurred after the sale of assets on the 3rd May, 1957 to 30th June, 1957.					1,284.05
					<u>49,15,216.2</u>

Note:

(1) Interest from 1st July 1953 onwards amounting to Rs. 16.21 lacs which has not been charged to the loan accounts has not been included in the above statement.

(2) In accordance with Section 28(3A) of the I.F.C. Act the sale proceeds have been first applied to A/c. No. 5. The balance remaining thereafter has been applied towards A/cs. No. 4 and 3. After the adjustment of A/cs. No. 4 and 3 the balance sale proceeds have been applied to A/c. 2.

APPENDIX XXXI

No. 18-8/57-DD

New Delhi, the 26th March, 1958.

Note from the Ministry of Food and Agriculture (Department of Agriculture) stating the exact nature of Ministry's instructions to the Director of the Cattle-cum-Dairy Farm, Karnal under Audit Comments, page 42, Grant No. 45-Agriculture, Appropriation Accounts (Civil) 1953-54.

Audit Comment No. 1

The value of machinery stores in stock on the 31st March, 1953, was Rs. 20,073 and stores worth Rs. 18,558 were purchased during the year but the consumption during the year was to the tune of Rs. 5,451 only. Apparently the purchases during the year and the balance in stock as on 31st March, 1954 were in excess of the normal requirements of the Dairy. Government money was thus unnecessarily locked up.

Ministry's Explanation.

The opening balance of Rs. 20,073 on 1st April, 1953 was made up of the book value of stores taken over from the Agricultural Sub-station, Karnal on 1st April, 1951 and brought forward from year to year and of the balance of stores purchased during 1951-52 and 1952-53 by the late Cattle-cum-Dairy Farm, Karnal. Details of these are furnished below:—

1. Book value of Stores taken over from the Agricultural Sub- station.	Rs. 13,696
2. Cost of Stores purchased by the late Cattle-cum-Dairy Farm.	Rs. 6,377
TOTAL.	Rs. 20,073

Out of the above balance stores worth Rs. 1,418 were consumed during the year 1953-54. Stores worth Rs. 6,754-5-7 out of the stocks transferred from the Agricultural Sub-station were declared surplus to the Director-General, Supplies and Disposals. The latter had however to be carried in stock at the end of 1953-54 since they were not issued from stock within 1953-54. These were actually auctioned by Director-General, Supplies and Disposals on 10th March, 1954 and 15th January, 1955 for Rs. 2,402-12-0.

During the year 1953-54 stores worth Rs. 18,558 were purchased mainly for the overhauling of Tractors and Chaff Cutters. The details

of the purchase are furnished below:—

1. Spares for overhauling of one T.D. 14 Tractor.	Rs. 12,407.
2. -do- one D. 4 "	Rs. 2,169
3. -do- two Ferguson Tractors	Rs. 1,909
4. Spares for overhauling of one H. 4 Chaff Cutter	Rs. 1,599
5. Spares for other machines.	Rs. 474
TOTAL	Rs. 18,558

The stock on 31st March, 1953 did not contain any of the spares required for the above overhaulings except in the case of one very minor item costing Rs. 39 *viz.*; Oil plate. Thus the purchase made during 1953-54 to the extent of Rs. 18,558 despite the opening balance of Rs. 20,073 could not be avoided. However, these spares were purchased on the basis of requirements and estimates furnished by the Technicians who were entrusted with the job of overhauling the tractors and other machines. Stores worth Rs. 4,033 could, however, only be utilised during the year since during the course of the execution of overhauling additional stores were required and had to be purchased. The stores worth Rs. 18,558 purchased during the year 1953-54 were not utilised fully even in the next year. Till the additional requirements could be supplied, overhauling could not be completed. Hence the total quantities of stores purchased for overhauling for T.D. 14 Tractor could not be utilised. As regards the rest, the overhauling was taken up about the end of the year and had therefore to be carried forward to the subsequent year.

Audit Comment No. 2

No reserve stock limit has been prescribed. Some such limit should be prescribed to avoid unnecessary accumulation of stores and consequential locking up of Government money.

Ministry's Explanation.

Steps are being taken for the fixation of maximum and minimum monetary limits in respect of the various categories of stores. This is under consideration since 8th November, 1957.

Audit Comment No. 3

The physical verification of stores, is required to be conducted by an officer other than the one responsible for the physical custody of stores or for keeping accounts thereof but in this case it was conducted by the Cattle Officer who was also incharge thereof.

Ministry's Explanation.

During the year under Audit the Cattle-cum-Dairy Farm was under the charge of a Superintendent. But with the establishment of National Dairy Research Institute in 1955 the Farm is under the Director of Dairy Research, who is the Head of the Department and has issued instructions that physical verification of stores should be conducted by officers other than those who are incharge of stores concerned. A copy of the relevant instruction dated October 11, 1956 is attached.

KRISHAN CHAND,
Joint Secretary.

26th March, 1958.

No. F.5/11-G56/6954-63
NATIONAL DAIRY RESEARCH INSTITUTE
 (GOVERNMENT OF INDIA)

Karnal, dated the 11th October, 1956.

OFFICE ORDER No. 55/56-G

SUBJECT: *Periodical physical verification of Stores by actual count/weightment.*

Physical verification of all articles of stores by actual count/weightment is an important function as per the rules in regard to stores accounting. This verification has to be done periodically by a responsible officer who is independent of the superior executive officer in-charge of stores or its accounting in the presence of the officer responsible for the custody of stores or of a responsible person deputed by him. The audit is very particular in ascertaining that the articles are verified periodically and otherwise examined to verify the accuracy of the quantity balances in the books and a certificate of verification is recorded periodically by a responsible authority and that the system of verification adopted is adequate and proper and that discrepancies found are properly investigated and adjusted etc.

2. In pursuance of the above procedure the following officers of the N.D.R.I., Karnal are nominated for the purpose of periodical physical verification of stores with immediate effect.

(i) Dr. N. N. Dastur, Dairy Chemist.

(ii) Dr. H. Laxminarayana, Assistant Dairy Bacteriologist.

3. The above officers will periodically make surprise checks of a few items of store articles each time and thus complete the verification of all stores before the close of the financial year. A report of the articles verified each time with discrepancies noticed if any between the book balance and the actual count/weightment will be submitted to the D.D.R. for his information and further action. They will also report in addition of shortages and damages, any unserviceable stores, surplus and obsolete stores as well as balances of stores held in excess of requirements of a reasonable period or in excess of prescribed maximum limit. A record of checks conducted will also be made by them in the relevant registers where such verifications have been carried out.

4. The proforma to be used for reporting the results of verification is given hereunder:—

STOCK VERIFICATION REPORT

Date.	SL. No.	Name of article.	Book Balance	Actual balance on count/ weightment.
				Sd/- K. K. LYA. for D. D. R.

Copy forwarded for information to:—

1. Dr. N. N. Dastur, Dairy Chemist.
2. Dr. H. Laxminarayana, A.D.B.
3. Dairy Engineer, and store keeper (2 copies).
4. Superintendent (Farm).
5. Guard Book.

APPENDIX XXXII

No. 7-45/57-LR

New Delhi-2, the 26th April, 1958.

Note from the Ministry of Food and Agriculture (Department of Agriculture) under Grant No. 124-Other Capital outlay of the Ministry of Food and Agriculture, Note 8(a)-Government Capital Account, page 103, Appropriation Accounts (Civil) 1954-55.

It was pointed out by the audit in the appropriation accounts for 1953-54 that at the end of the year 1953-54 the capital account of the Accountant General, Central Revenues was in excess by Rs. 30,24,859 over the figures of the Central Tractor Organisation under the withdrawals and Rs. 35,914 under 'Remittances' into treasury. In the appropriation account for 1954-55 it was again pointed out that there was a discrepancy of Rs. 66.25 lacs under withdrawals and of Rs. 8.26 lacs under 'Remittances'. The Public Accounts Committee also asked in the course of its sittings early in November, 1957, for the reasons for non-reconciliation of accounts and further enquired about the efforts being made by the Central Tractor Organisation to reconcile them.

The exact differences during the various years after taking into account all the adjustments made by the Accountant General, Central Revenues during a particular year are as per statements 'A' and 'B' enclosed.

It would be seen from the statements 'C' and 'D' enclosed that the differences between the two sets of figures which are due to adjustments of certain items of expenditure or receipts in the proforma account of subsequent years have been almost fully reconciled and have been accounted for in the proforma accounts of the subsequent years as shown in the statements. The unreconciled differences are very meagre in respect of the years upto 1952-53 and 1953-54. Out of the difference of Rs. 92,84,453 under withdrawals relating to 1954-55, discrepancies to the extent of Rs. 89,49,621 have been also reconciled. The difference of Rs. 8,62,239 under 'Remittances into treasury' relating to 1954-55 has been completely reconciled. The reconciliation of differences pertaining to the Accounts for 1955-56 is in hand and will be finalised shortly.

It is important to stress here that the reconciliation of the capital account is different from the usual reconciliation which is carried out between the figures of the accounts officer and the expenditure figures maintained by a department. In the present case the differences are not account of the cash charges like pay, allowances and contingent expenditure but are only on account of book adjustments, payments made by the Director General, Supplies and Disposals on account of the purchase of the stores and adjustment of credit notes.

Differences of this kind are inherent in the system of Government Accounts and arise mainly because of the following reasons:—

1. The accounts of the CTO are not closed at the same time as the accounts of the Accountant General, Central Revenues and hence the two accounts are bound to differ.
2. Book adjustments on account of the purchases of stores are made by the A.G.C.R. as soon as the debit vouchers are received from the concerned Pay and Accounts Officer whereas the debits ~~are~~ taken into the books of the Central Tractor Organisation at a later stage after the preparation of receipt vouchers etc.
3. In previous years some of the charges which had to be borne by the State Governments were initially met by the Central Tractor Organisation and were, therefore, adjusted by the Accountant General, Central Revenues under the CTO's head of account but these debits were not posted in the proforma accounts of the CTO because they had to be transferred to the State Governments.

While it is necessary that the old differences are not allowed to go unreconciled for a number of years, it may be mentioned that these differences of the recent years do not represent any difference between the actual cash expenditure and the figures booked by the A.G.C.R. on account of the same.

This note has been vetted by Audit.

KRISHAN CHAND,
Joint Secretary.

STATEMENT 'A'

Withdrawals

Year of Adjustment	Figures booked by A.G.C.R.	Figures booked by Central Tractor Organisation Proforma Accounts	Difference C.T.O. More(+) C.T.O. less(—)
Upto 1952-53	9,85,15,045	9,76,80,003	(—) 8,35,042
For 1953-54	2,07,51,711	1,66,60,966	(—) 40,90,745
„ 1954-55	76,46,961	1,69,31,414	(+) 92,84,453
„ 1955-56	1,03,36,370	87,20,671	(—) 16,15,699
„ 1955-57 (Up to March II Supp.) . . .	1,08,82,623	83,86,159	(—) 24,96,464
	14,81,32,710	14,83,79,213	(+) 2,46,503
Less interest for 1955-56 adjusted in the pro- forma accounts but not by A.G.C.R. . . .	Nil.	(—) 16,35,834	(—) 13,89,331

STATEMENT 'B'

Deduct Recoveries

Year	Booked by AGCR	Running Total	Accounted in CTO proforma Account	Running Total of C.T.O.	Difference	Net difference
1947-48	15,52,734	15,52,734	..	..	..	..
1948-49	5,94,955	21,47,689	..	..	..	..
1949-50	17,84,346	39,32,035	40,35,908	40,35,908	(+) 1,03,873	(+) 1,03,873
1950-51	33,75,758	73,07,793	31,45,177	71,81,085	(—) 2,30,581	(—) 1,26,708
1951-52	27,72,695	1,00,80,488	27,72,696	99,53,781	(+) 1	(—) 1,26,707
1952-53	92,50,923	1,93,31,411	92,51,084	1,92,04,865	(+) 161	(—) 1,26,546
1953-54	3,85,48,663	5,78,80,074	3,87,10,923	5,79,15,788	(+) 1,62,260	(+) 35,714
1954-55	2,18,42,677	7,97,22,751	2,09,80,438	7,88,96,226	(—) 8,62,239	(—) 8,26,525
1955-56	3,51,18,081	11,48,40,832	3,50,47,403	11,39,43,629	(—) 70,678	(—) 8,97,203
	11,48,40,832	11,48,40,832	11,39,43,629	11,39,43,629	(—) 8,97,203	(—) 8,97,203

The net difference as on 31-3-54
is only Rs. 35,714 (C.T.O. figure
is higher).

The net difference between AGCR and C.T.O. figures
as on 31-3-56 is Rs. 8,97,203 (Central Tractor Organisa-
tion figure is less).

STATEMENT 'C'
(Withdrawal)
Amounts adjusted in subsequent years

	1953-54	1954-55	1955-56	1956-57	Total	Net unreconciled difference of the year.	Remarks
1	2	3	4	5	6	7	8
Difference between the two accounts "Proforma and AGCR" Central Tractor Organisation Less (—) Central Tractor Organisation More (+)							
Upto 1952-53 (—) Rs. 35,042	(+) 5,99,700	(+) 72,965	(+) 11,39,511	(+) 37,448	(+) 38,49,624	(—) 14,582	† Out of this a sum of Rs. (—) 26,123 was adjusted under the head T-3: Suspense, leaving a net difference of (+) Rs. 640.
For 1953-54 (—) 40,90,745	(—) 5,99,700	(—) 45,31,845	(—) 11,37,963	(—) 47,400	(—) 41,17,508	(—) 26,763	
For 1954-55 (—) 92,84,453	..	(—) 45,96,122	(—) 43,53,499	..	(—) 89,49,621	(+) 13,34,832	

STATEMENT 'D'

Amounts adjusted in subsequent years

Deduct Recoveries

Difference between the two accounts (Proforma and AGCR) CTO Less (—) CTO More (+)

Year	1950-51	1951-52	1952-53	1953-54	1954-55	1957-58	Total reconciled figures	Net unreconciled figures
Upto 1949-50	..	..	..	..	..	..	(—) 1,03,873	..
1950-51	(+) 1,03,873	..	..	..	..	..	(+) 12,30,580	..
1951-52	(—) 2,30,581	..	(—) 161	(—) 1,26,546	..	..	..	..
1952-53	..	..	..	..	..	..	..	..
1953-54	..	..	(—) 161	..	..	..	(—) 161	..
1954-55	(+) 1,62,260	..	..	(—) 1,26,546	..	..	(—) 1,26,546	(+) 35,714
1955-56	(—) 3,62,239	..	..	..	(+) 8,62,239	..	(+) 8,62,239	..

NOTE :—The difference of Rs. 35,714 for the year 1953-54 is being looked into and will be cleared during 1957-58.

APPENDIX XXXIII

No. 7-47/57-LR

Note from the Ministry of Food and Agriculture (Department of Agriculture) under Grant No. 124—Other Capital outlay of the Ministry of Food and Agriculture, Note 8(b) Suspense Accounts.—Interest Chargeable from State Governments due to staggered recoveries, page 103, Appropriation Accounts (Civil) 1954-55.

One of the points on which the Public Accounts Committee, at the sittings on the 5th, 6th and 8th November, 1957, desired to be furnished with further information is as follows:—

5. Sub-para (b) Suspense Accounts—Interest chargeable from State Governments due to staggered recoveries:

How are the Ministry going to account for the sum of Rs. 32,83,338?

Orders have been issued by the Government of India to the effect that the amount of Rs. 35,76,047, representing the interest charges not recovered from State Governments in respect of the outstanding instalments of reclamation charges for work done by the Central Tractor Organisation, should be exhibited as a loss in the operational accounts of the organisation. The C.T.O. will accordingly be removing forthwith from their suspense accounts the charges in question, for which they have been taking debits in the Suspense Accounts and credits in the operational accounts in anticipation of recovery. The interest charges (Rs. 35,76,047) will simultaneously be debited as loss to the operational accounts.

The orders referred to above have been issued with the concurrence of Audit.

AMEER RAZA,

Joint Secretary

No. 8-11/57-LR
GOVERNMENT OF INDIA
MINISTRY OF FOOD & AGRICULTURE
(Department of Agriculture)

New Delhi, the 14th January, 1958.

From

Shri F. C. Gera, M.A.,
Under Secretary to the Government of India.

To

The Chairman,
Central Tractor Organisation.
New Pusa, New Delhi.

SUB:—Interest Charges—Accounting of.

Sir,

With reference to the correspondence resting with Central Tractor Organisation U.O. No. F.113-7/54-55-Cost I., dated the 5th September, 1957, I am directed to say that the President has been pleased to decide that the amount of Rs. 35,76,047 (Rupees thirtyfive lakhs, seventysix thousand, and fortyseven only), representing the interest charges not recovered from State Governments in respect of the outstanding instalments of reclamation charges for work done by the Central Tractor Organisation should be exhibited as a loss in the operational accounts of the Organisation. Accordingly the charges, for which the Central Tractor Organisation have made debits in the Suspense Accounts and credits in the operational accounts in anticipation of recovery, should be removed forthwith from the Suspense Accounts and debited as loss to the operational accounts.

Yours faithfully,

Sd./

(F. C. GERA),
Under Secretary.

Copy, with 3 spare copies for communication to Accountant General, Central Revenues, and one copy of the Director of Commercial Audit, forwarded to the Ministry of Finance.

This has reference to their U.O. No. 187AFI/58 dated 14-1-58.

Under Secretary.

Copy to Guard file.

APPENDIX XXXIV

Note from the Ministry of Food and Agriculture (Department of Agriculture) pursuant to action taken on paras 65, 67, 68, 71, 72, 73, 74, 75 and 76 of the Sixteenth Report regarding Central Tractor Organisation.

It has been stated in paragraph 65 of the P.A.C's report that they are not satisfied with the manner in which the Ministry of Food and Agriculture had set about this deal. The full facts about the utilisation and ultimate surrender of a part of the 10 million dollar loan have been given in the Ministry's note dated the 17th March, 1956, referred to in para 65 of the P.A.C's report. It is necessary to recall in this connection that the food situation, already bad enough, worsened in 1949. The import of foodgrains that year reached a figure of 3·7 million tons and a definite plan to achieve self-sufficiency in food by 1951 was formulated. The Foodgrains Policy Committee recommended that the Ministry of Agriculture should immediately take up the work of reclamation of 85 million acres of culturable waste land which was said to be available in the country. The land reclamation project was conceived against this background and the original intention was to purchase 375 heavy tractors. In the absence of technical know-how in the country, the Ministry of Food and Agriculture had no alternative but to depend upon the advice of manufacturers and the World Bank Experts in the matter of purchases of tractors, spares and equipment. With the passage of time, experience was gained by the C.T.O. and the last lot of heavy tractors purchased consisted of 30 D-8 Caterpillar type whose utility had been established to the satisfaction of the Organisation. The facts and figures stated above have not been verified by Audit.

The P.A.C. has asked for the reconciliation of the figures of tractors actually purchased and the figures reported to them. It has been stated that the number of tractors purchased was 298. Actually the total number was 317 while the number of heavy tractors purchased for land reclamation was 270 against the original figure of 375. The details are given below:

HD-19 tractors	..	90	
F.D.E. tractors	..	90	
D-8 tractors	..	60	
TD-24 tractors	..	30	
TD-9 tractors	..	16	} equivalent to D-4 tractors.
HD-5B tractors	..	16	
Case tractors (with Winches)	..	5	
WD-6 tractors	..	10	
		<hr/>	
		317	

In the Ministry of Food and Agriculture note dated the 17th March, 1956, the number of tractors equivalent to D-4 was mentioned as 28. Actually this figure was 32. A corrigendum intimating the revised figure was issued on the 26th June, 1956, but presumably it reached the P.A.C. after they had finalised their Sixteenth Report.

The main tractors purchased for heavy reclamation work are the HD-19, F.D.E., D-8 and T.D.-24. Upto 1951, 240 of these tractors had been purchased and an order for 30 D-8 tractors was placed in 1952. The remaining tractors were smaller tractors intended for subsidiary operations and whenever the Ministry of Food and Agriculture refer to the operational fleet of the C.T.O., they usually refer to the heavier types which constitute the main tractors of the operational units. The heavier tractors mentioned above are meant for kans eradication and jungle clearance. 32 tractors equivalent to D-4 were intended for mopping up operations and the WD-6 and Case tractors were for felling trees and cutting the wood. Incidentally, it might be mentioned that 32 tractors equivalent to D-4 have since been disposed of by the C.T.O. to various State Governments as it was later found that the C.T.O. could do the mopping up work with the help of some old disposal D-4 tractors. The Government of India appointed a Senior Civilian in 1955 to enquire into the propriety of the purchase of these 32 tractors amongst certain other transactions. The report of the Inquiry Officer was received in April, 1956, and has been considered by the Government of India. The Inquiry Officer considering the circumstances of the case has come to the conclusion that there is no case for any action against any Officers connected with these transactions. The Government of India have accepted this conclusion.

Paras 66 and 67—Unnecessary purchase of machinery:

The position is that increase in the balances of stocks resulted on account of heavy purchases made in the year 1949-50 and 1951-52. Then there were the spare parts procured by the C.T.O. from the disposals. These purchases were made on the recommendations of the manufacturers on account of anticipated difficulties about availability due to worsening of international situation and Korean war. As explained in our reply to para 64 above, there was no choice before the Ministry but to accept the advice of the manufacturers as C.T.O. did not possess adequate know-how. As the know-how was acquired the reliance on the advice of the manufacturers became less and less.

Regarding the purchase of 4 different makes of heavy tractors, the matter was gone into fully after the receipt of the Estimates Committee's Report and the Zaidi Committee's Report. The position is that 90 Allischalmer and 90 Oliver tractors were purchased in 1949. At that time, they were the only suitable tractors available for early delivery. The Ministry of Food and Agriculture wanted to buy Caterpillar tractors which were considered the more suitable for the C.T.O.'s work but the supply position of these tractors was extremely difficult and it was not possible to get these in adequate quantities. It was also not possible to obtain International tractors in adequate quantities. When the purchase were made, time was the essence of

the matter. The food situation was very unsatisfactory and Government had taken the decision that the country should become self sufficient in food by 1951 and it became necessary, therefore to get whatever tractors were available provided of course they could do the work. The decision to purchase a particular make of tractor was not made by the Ministry itself but by the D.G.S. & D. through whom the purchases were made. The specifications of the types of machines that were wanted were given and the D.G.S. & D. in consultation with the Ministry decided to purchase 90 Allischalmer and 90 Oliver tractors in consideration of the supply position in America.

The C.T.O. at that time did not possess the enough experience of the heavier type of tractors required for reclamation purposes. There was no time to buy a few tractors of each make, try them for a reasonable period, get the necessary data and then to make a decision as to what particular make should be bought in larger numbers. C.T.O.'s actual experience also shows that all these different makes have done good work. In some respects, one tractor is better than another but taken as a whole, the entire lot of tractors have done good work.

A very large majority of these tractors are still in the field and are doing good work. The original anticipation was that all these tractors would last for 10,000 hours. A recent examination of the tractors by a T.C.M. Expert has indicated that many of these tractors are capable of working for about 12,000 hours. The Ministry of Food and Agriculture is, therefore, of the opinion that the purchase of 4 different makes of tractors was inevitable and had been justified by the work done by them.

The Government of India were *prime facie* not satisfied with some of the subsequent purchases and the case was entrusted for an enquiry to a Senior civilian. The position in this respect is as indicated against para 65 above.

Para 68

A review of the spare parts in stock has already been completed and parts amounting to Rs. 42,26,303 have since been declared as surplus. The C.T.O. have, so far, been able to sell spare parts worth Rs. 10,20,369 resulting in a profit of Rs. 6,94,184 to the Organisation. The figures are upto 31st July, 1956 and have not been verified by Audit, as the accounts for 1955-56 and 1956-57 are still open. (Corresponding figures upto 1954-55 as certified by Audit are Rs. 4,72,830 and Rs. 4,47,045. Steps are being taken to accelerate the sale of these spares). Details regarding the consumption of stocks and those disposed of as surplus are given as under:—

Year	Value of spare parts consumed (Rs. in thousands)	Value of part disposed of (Rs. in thousands)
1951-52	20,46	..
1952-53	23,45	240
1953-54	36,24	126
1954-55	35,65	107
1955-56	25,00	239
1956-57	N.A.	309
(31-7-1956).		

The information regarding the balance of spares is being completed and will be furnished later.

Paras 72 and 73:

Physical verification of the stores and spares in bins is being done half-yearly and discrepancies coming to notice are reconciled. Of course, discrepancies to the tune of Rs. 26,000 were noticed in the initial physical verification which were later reduced to Rs. 23,096 in view of subsequent reconciliation. Necessary investigations to fix up responsibility were carried out and suitable punishments were awarded to the persons who could be held responsible in cases involving a loss of Rs. 1834 only and the losses were written off under the orders of competent authority. The exact punishments were the recovery of a sum of Rs. 183-6-6 from two persons. This is 10 per cent. of the loss of Rs. 1834. This punishment was considered reasonable. It is only in the case of bulk stores out of tonnage taken from the American Disposals that the stock verification could not be exhaustively carried out on account of the difficulty in identification of stores for want of parts Catalogue and other relevant literature. However, that job has also been completed and the work of reconciliation of discrepancies is in hand. No doubt there has been a delay in finalising this work but the stores purchased from Army Disposals were received in weight and on unpacking the boxes it was discovered that there were not less than 2,000 items which belonged to machines other than tractors and it was therefore a big job to identify and account for the same in the C.T.O.'s books.

Para 74.—Disposal of non-tractor parts as are not required for use in the C.T.O.:

In order to expedite further disposal of C.T.O. surpluses a Disposal Committee consisting of the officers of the Ministry of Food and Agriculture, the Ministry of Finance and Central Tractor Organisation was formed by the Government of India in the month of March, 1955. The disposal of the C.T.O. surpluses is now being carried out by that Committee in accordance with the usual established procedure. Apart from normal procedure for the disposal of the C.T.O. surpluses, comprehensive lists giving details of surplus machinery, equipment and spare parts were circulated to all the State Governments and the River Valley Projects and they were requested to buy all their requirements from these surpluses as far as possible. In order to give a further fillip to the disposal work, two officers of the Stores Directorate were deputed in January, 1956, to visit the headquarters of all the State Governments and the various River Valley Projects with a view to effect sales of C.T.O. surpluses through personal contact. The results of the efforts thus made were very encouraging and the two officers were able to secure orders worth about Rs. 10,00,000 from the various State Governments and River Valley Projects. Further, in pursuance of the decisions arrived at by the Government of India early this year, a global tender has been issued in a number of South East and West Asian countries regarding the sale of surplus machinery and equipment. The

statistics of disposals of stores including capital equipment are given below:—

Year (Operational)	Value of stores declared surplus	Book value of stores and capital equipment disposed of	Sale value
	Rs.	Rs.	Rs.
1951-52	35,00,128/2/-	1,02,222	4,18,710
1952-53	12,89,914/14/-	9,99,367	17,10,940
1953-54	13,18,480/13/-	10,59,918	13,99,408
1954-55	36,56,722/8/-	10,26,007	12,42,236
1955-56	2,18,472/8/-	6,16,309	9,57,543
1956-57	16,14,859/8/9	5,40,996	8,15,719
(31-7-56)			
TOTAL	1,15,98,578/5/9	43,44,809	65,44,556

The figure of Rs. 8.2 lakhs referred to by the P.A.C. represented the value of surplus stores other than capital equipment disposed of to the end of March, 1955 and its break-up was as follows:—

Period	Sale of stores excluding capital equipment. (Rs.)
1951-52	1,59,248/6/9
1952-53	82,890/6/9
1953-54	1,83,025/11/11
1954-55	3,99,246/15/10
TOTAL	8,24,411/9/3

The value of surplus stores other than Capital equipment disposed of subsequently is shown below:—

1955-56	from 1-4-55 to 31-3-56	5,36,508/4/2
1956-57	from 1-4-56 to 30-6-56	3,91,402/1/5
Grand total for the period	1951-52 to 30-6-56	17,52,321/14/10

The figures for 1955-56 and 1956-57 have not been verified as accounts for 1955-56 have not yet been submitted to Audit for check.

Para 75.—Maximum limit of stores to be held by the C.T.O.:

The maximum overall monetary limit for all categories of stores has since been fixed. A copy of the order issued on the subject is enclosed. (Appendix 'A').

Para 76.—Financial implication of the utilisation of old tractors.:

The financial position in regard to the old units as on 31st March, 1956 is being worked out and the statement in the prescribed form will be submitted after it is vetted by Audit.

It may, however, be added that the losses on old units are being off set by the profits arising out of sale of old equipment. A profit of Rs. 36,132 has been made due to the sale of capital equipment

during 1955-56 (this figure has not been verified by Audit as accounts for 1955-56 have not yet been submitted to Audit for check), thus reducing the losses from Rs. 5.15 lakhs to Rs. 4,38,868 and losses on Maikala scheme have also been recovered; thus the net loss now stands at Rs. 3,97,868. There is no loss in respect of old units upto 1949-50. The loss of Rs. 14,72,521 pertains to the period 1950-51 and 1951-52.

A statement showing the amounts recovered from State Governments upto 1954-55 in regard to the operation of old units is enclosed as Appendix 'B'. The number of hours worked by old units are given in the enclosed statement (Appendix 'C'). No record of idle hours of these old units was maintained. These idle hours are on account of only breakdown of tractors.

The rate of recovery was Rs. 17-8-0 per hour for plowing and Rs. 25 per hour for dozing.

This has been seen and vetted by the Audit.

The 4th October, 1956.

R. L. MEHTA,
Joint Secretary.

Para 68.—Information regarding the balance of spares in the Central Tractor Organisation was promised in the Ministry of Agriculture's note dated the 4th October, 1956, submitted to the Public Accounts Committee on the above subject. The balance of spare parts for each year is indicated below:—

		Rs.
1951-52	..	79,07,021
1952-53	..	95,54,033
1953-54	..	1,13,22,822
1954-55	..	1,11,69,765
1955-56	..	95,09,746

The above note has been vetted by Audit.

The 9th March, 1957.

R. L. MEHTA,
Joint Secretary.

Para 71.—In the statement, dated 4th October, 1956, submitted by the Ministry of Agriculture to the Public Accounts Committee, it was mentioned that a reply to this paragraph would be sent separately. The question of interest charges on the C.T.O's dues outstanding with the various State Governments was reviewed recently and it was decided that the State Governments should be called upon to pay these charges. The case was taken up with them some time ago and it is hoped it will be finalized shortly.

The 9th February, 1957.

R. L. MEHTA,
Joint Secretary.

APPENDIX 'A'
No. F.3-1/56-CDN.
GOVERNMENT OF INDIA
CENTRAL TRACTOR ORGANISATION,
NEW PUSA, NEW DELHI-12.

Dated the 16th July, 1956.

ADMINISTRATIVE ORDER (PART 'C') No. 17/56.

Monetary limits for stores etc.:

The question regarding the fixing of monetary Limits for all categories of stores in the Central Tractor Organisation has been under active consideration for some time past. The following Limits suggested by the Chief Engineer are approved:—

1. General Stores.	Rs. 12,57,000.
2. Petrol, Oils and Lubricants.	Rs. 32,40,000.
3. Tractor Spares:	
(a) Crawler tractor spares.	Rs. 38,92,000.
(b) Wheel tractor spares.	Rs. 5,26,000.
4. Implements spares.	Rs. 11,05,000.
5. Spared parts for power Control Units and land clearing equip- ment.	Rs. 44,000.
6. Vehicle spares.	Rs. 9,24,000.
7. Workshop stores.	Rs. 48,600.

These Limits will be operative for 1956-57 and will be reviewed again in April, 1957.

Sd./- BHAGWAN SINGH,
I.A.S.
Chairman.

Distribution:

1. All officers in Central Tractor Organisation.
2. All Sections at Headquarters.

APPENDIX 'B'

Statement showing the debits raised, amount realised and balance outstanding from State Governments on account of work done by old Units of C.T.O.

State	Financial year	Amount of debit	Amount realised upto end of 1954-55 by direct debit to State Govts.	Balance due after 1954-55
MADHYA PRADESH . .	1947-48	32,308-8	..	..
	1948-49	4,06,484-5		
	1949-50	9,46,820-8		
	1950-51	5,32,225-4		
	1951-52	3,65,917-8		
	Supp.	7,68,687-0		
		30,52,443-1	30,52,443-1	
UTTAR PRADESH . .	1947-48	2,17,225-15	2,17,225-15	
	1948-49	5,22,432-4	5,22,432-4	
	1949-50	7,50,435-0	7,50,435-0	
	1950-51	4,28,521-0	4,28,521-0	
	1951-52	1,30,563-12	1,30,563-12	
	Supp.	6,11,437-8	3,81,438-12	(a)
		26,60,915-7	24,30,616-11	2,30,298-12
MADHYA BHARAT . .	1948-49	28,101-8	80,000-0	
	1949-50	68,038-8		
	1950-51	1,07,050-4		
	1951-52	97,278-12		
	Supp.	1,00,635-0		
		4,01,104-0	80,000-0	3,21,104-0
EAST PUNJAB . .	1948-49	1,03,472-8	1,03,472-8	
	1949-50	1,84,772-8	1,84,772-8	
	1950-51	1,57,055-8	1,57,055-8	
	Supp.	1,47,907-8	..	(b)
		5,93,208-0	4,45,300-8	1,47,907-8
BHOPAL	1950-51	23,549-4		
	1951-52	1,23,486-4		
	Supp.	24,572-8		1,71,608
		1,71,608		
GRAND TOTAL		68,79,278-8	60,08,360-4	8,70,918-4

(a) The debit has been accepted by the State Government, but has not yet been credited to C.T.Os' account.

(b) This amount is to be credited to C.T.O's account in accounts for 1955-56.

APPENDIX 'C'

Working hours of old Units

JTTAR PRADESH

1950-51	30,546
1951-52	11,563

MADHYA PRADESH

1950-51	50,581
1951-52	28,514

BHOPAL.

1950-51	9,862
1951-52	7,178

MADHYA BHARAT

1951-52	4,470
-----------------	-------

Loss on Old Units

1950-51	11,00,696	Old units worked 90,989 hours and the working cost comes to Rs. 29. 5 as against the rate of recovery Rs. 17.5
1951-52	3,30,195	Old Units worked 54,225 hours and the working cost comes to Rs. 24.90 as against the rate of recovery Rs. 17. 5.

41,630 Maikala operations.

14,72,521

F. No. 7-58/57-LR

GOVERNMENT OF INDIA

MINISTRY OF FOOD AND AGRICULTURE

(Department of Agriculture)

New Delhi-2, 23rd April, 1958.

SUBJECT: *Paras 74 and 76 of the Sixteenth Report of the Public Accounts Committee.*

Para 74.—*Disposal of surplus stores in the Central Tractor Organisation:*

In a note furnished by the Ministry of Food and Agriculture to the Public Accounts Committee on 4th October, 1956, it was mentioned in reply to para. 74 of the Sixteenth Report of the P.A.C. that the figures of disposals etc. for the years 1955-56 and 1956-57 were not vetted by audit.

The details of sales of surplus stores (including capital equipment) and the profits made thereon during the year 1955-56 are as under:—

Description	Sale Value	Book Value	Profit
	Rs.	Rs.	Rs.
Capital assets	4,60,230	3,77,669	82,561
Tractor spares	2,67,667	1,68,845	98,822
Non-tractor spares	15,555	9,512	6,043
Miscellaneous stores	2,20,370	63,520	1,56,850
TOTAL .	9,63,822	6,19,546	3,44,276

The details of sales of surplus stores (including capital equipment) and the profits made thereon during the year 1956-57 are as under:

Description	Sale Value	Book Value	Profit
	Rs.	Rs.	Rs.
Capital assets	8,07,921	6,12,272	1,95,649
Spare parts and General stores	7,43,633	5,54,062	1,89,571
Other stores	2,89,350	1,261	2,88,089
TOTAL .	18,40,904	11,67,595	6,73,309

The value of stores declared surplus during the year 1956-57 amounted to Rs. 22,47,291.

Para. 76.—Financial implication of the utilisation of old tractors:

The position of losses relating to the operations of old units as on 31st March, 1956 and further development during 1956-57 are shown below:

	Rs.	Rs.
(A) Loss on account of old unit as on 1-4-1954 .		14,72,521
Less loss relating to the Maikala operations since recovered		40,068
Balance		14,32,453
(B) Profit on sale of old capital equipment up to 1954-55	9,57,207	
Profit on old tractors during 1954-55	33,620	
Profit on old capital equipment during 1955-56	94,464	
	10,85,291	
Less loss on sale of old tractors (1955-56)	25,762	10,59,529
Balance		3,72,924
(C) Profit on sale of old capital equipment in 1956-57	1,44,763	
Profit on sale of old tractors	9,362	
	1,54,125	
(D) Profit on sale of Caterpillar tractor spares during 1956-57	2,24,532	
	3,78,657	
		3,78,567
Net profit earned as on 31-3-1957		5,733

It will be seen from the above that the uncovered loss of Rs. 3,72,924 as on 31st March, 1956 has been made up during the year 1956-57. Further, in addition to the profits shown above, profits have also been earned by the sale of old spares during the year prior to 1956-57. But it is very difficult to work them out at this stage as the sale of both old and new spares is accounted for as one item in the proforma accounts and it would involve a lot of clerical labour to work out profits for old and new spares separately.

This note has been seen by the audit.

KRISHAN CHAND,
Joint Secretary

APPENDIX XXXV

No. 7-50/57-LR

New Delhi-2, the 13th December, 1957.

Note from the Ministry of Food and Agriculture (Department of Agriculture) pursuant to action taken on para 65 of the Sixteenth Report regarding payment of unnecessary commitment charges.

Question: A note regarding the disposal of spare parts of TD-9 and HD-5 tractors and value of spare parts held up with the Government.

16 TD-9 and 16 HD-5 tractors were purchased in 1952-53 from M/s. Voltas and M/s. P. B. Patel & Co. respectively. The Public Accounts Committee asked on 6th November, 1957 whether any spare parts had been received with these tractors and whether these had been disposed of. The position is as follows:

HD-5 tractors were not used at all and were sold to Bhopal Government.

As regards 16 TD-9 tractors, these were disposed of as under after a little use:

(a) 7 tractors to C.M.F., Jammu.

(b) 9 tractors to C.M.F., Bhopal.

No spare parts were purchased along with any of the above two makes of tractors. There have, however, been some purchases of spare parts for TD-9 tractors, since these tractors were used by C.T.O. for some time. In all 66 items of TD-9 tractor spare parts were purchased. Out of these items nominal stocks against 18 items are now left with the C.T.O. and the balance have either been consumed or disposed of. The book value of the remaining parts of TD-9 works out to Rs. 2,273/-* and efforts are being made for their speedy disposal.

AMEER RAZA,

Joint Secretary.

*NOTE: In the advance copy of this note furnished to the Lok Sabha Secretariat on 11th November, 1957, the number of items of TD-9 tractor parts in stocks was shown as 19, with a book value of Rs. 2282.37 nP. This included a part (Generator Belt Part) which has been since disposed of.

APPENDIX XXXVI

No. 7-28/57-LR

New Delhi-2, the 20th February, 1958.

Note from the Ministry of Food and Agriculture (Department of Agriculture) pursuant to action taken on para 75 of the Sixteenth Report regarding fixation of monetary limit of stores to be held by the C.T.O.

Question: What is the Government's decision regarding the refixation of monetary limit of stores to be held by the Central Tractor Organisation?

In the note furnished to the Public Accounts Committee on 24th August, 1956 regarding the fixation of overall maximum limits for all categories of stores in the Central Tractor Organisation, it was mentioned that the limits mentioned therein would be revised in April, 1957. Subsequently, in August, 1957, the Lok Sabha Secretariat raised the following points in connection with this note:—

"It has been observed from the figures of maximum limits and the figures of actual consumption for 1955-56 that the figures of maximum limits are much more than the actual consumption and in some cases are 3 to 4 times in excess. The reasons for fixing the maximum limits at such high figures may please be intimated."

"It has been stated in the Note that the maximum limits fixed for stores have been approved for 1956-57 only and will be revised in April, 1957. It may please be intimated if the revision has since been carried out. If so, the revised figures of maximum limits and actual consumption during 1956-57 may please be intimated."

This point was again taken up by the Public Accounts Committee in their recent sittings in early November, 1957. This note is in reply to the above questions.

2. The maximum limits for stores of various categories for the year 1956-57 were fixed keeping in view the following factors:—

- (a) Value of present stocks held by the C.T.O.
- (b) Percentage of fast moving parts in the stocks.
- (c) The condition of the machines at the time.
- (d) Anticipated future purchases and consumption of the parts.

On account of the reasons explained above, the maximum limits for stores of various categories for the year 1956-57 were deliberately fixed in excess of the actual consumption during the previous years so that the Central Tractor Organisation should not be

reduced to the position of having to purchase spare parts at exorbitant rates once the spare parts in stock already were consumed or disposed of. Later experience has, however, revealed that the slow moving items of stores which are in stock in the Central Tractor Organisation will not be useful from the point of view of the repairs that might have to be carried out on the tractors that are in use. In view of this, it has been decided to reduce the maximum limits for stores for the current year in accordance with an administrative order (copy enclosed) issued on 26th December, 1957. The limits which have been prescribed for 1957-58 are based on the average of actual consumption of stores during 1955-56 and 1956-57—it was considered that the factor of scrapping of 34 tractors in 1957 was off set by the factor of the older condition of the remaining machines. The enclosed statement showing the figures of actual consumption and purchases for these two years has been vetted by audit.

3. The maximum limits for the year 1957-58 were not fixed till the end of December 1957 on account of the reason that allocation of the tractor units for the season 1957-58 was not finalized earlier. Further it was thought desirable not to fix the limits for 1957-58 before the basis adopted for the fixation carried out in the year 1956-57 was accepted by the audit.

4. While vetting this note, the audit have observed that the maximum limits for stores of various categories for the year 1956-57 were not fixed in a scientific manner and that these were fixed on an *ad hoc* basis. It has been explained in paragraph 2 above that the limits fixed for 1956-57 were deliberately high so that the Central Tractor Organisation should not have to purchase spare parts at high prices after disposing of parts in their own stocks.

This note has been seen by audit.

KRISHAN CHAND,
Joint Secretary.

No. F. 3-1/57-Adm. Cord.

GOVERNMENT OF INDIA

CENTRAL TRACTOR ORGANISATION

NEW PUSA, NEW DELHI-12.

Dated the 26th December, 1957.

ADMINISTRATIVE ORDER (PART 'C') No. 29/57

Monetary Limits for Stores etc.

In supersession of Administrative Order (Part 'C') No. 17/56 dated July 14, 1956 the monetary limits for all categories of stores in Central Tractor Organisation have been fixed as indicated hereunder:—

	Rs.
1 General & Workshop stores	2,30,000
2 Petrol, Oils and Lubricants	23,60,000
3 Tractor spares :	
(a) Crawler Tractor spares	12,80,000
(b) Wheel tractor spares	4,000
4 Implements spares	3,00,000
5 Spare parts for power control units and land clearing equipment	45,000
6 Vehicle spares	70,000

These limits will be operative with immediate effect and remain in force till further orders.

Sd/- V. P. KAPUR,
Chairman.

Distribution:—

1. All Officers in Central Tractor Organisation.
2. All Sections at Headquarters.

Statement showing the purchases and consumption of Stores, spares and P.O.L. during the years 1955-56 and 1956-57.

Particulars	1955-56		1956-57	
	Purchase	Consumption	Purchase	Consumption
	Rs.	Rs.	Rs.	Rs.
(a) General Stores . . .	2,32,917	2,40,286	2,29,973	2,11,231
(b) P.O.L. . . .	21,97,770	21,60,861	24,53,438	25,42,742
(c) (i) Crawler Tractors . . .	8,62,700	16,16,911	2,85,371	9,38,309
(ii) Wheel Tractors . . .	..	7,27,289	..	539
(d) Implements . . .	1,78,829	3,88,464	15,706	1,84,115
(e) Spares for PCUs . . .	..	53,883	39,280	35,921
(f) Vehicle spares . . .	3,19,848	58,295	2,46,351	75,042
(g) Workshop Stores . . .	Included in General Stores at (a) above.			
TOTAL .	37,92,064	45,25,989	32,70,119	39,87,899

APPENDIX XXXVII

No. 8-86/56-LR(II)

New Delhi-2, the 11th February, 1958.

Note from the Ministry of Food and Agriculture (Department of Agriculture) giving the views of the Government on observations of the Committee in para 84 of their Twenty-third Report regarding collection of charges by the C.T.O. from State Governments at a rate less than its actual cost of reclamation.

1. In para. 84 of their 23rd Report, the Public Accounts Committee have requested this Ministry to explain the reasons for the rate of recovery charged by the Central Tractor Organisation being less than the actual cost of operations in spite of the fact that the Central Tractor Organisation is a commercial undertaking.

2. For operations with tractors and other equipment bought from the International Bank loan, a provisional rate of Rs. 52 per acre/hour was fixed on 13th July, 1950 in the beginning on the understanding that if the cost varied, the necessary recoveries from or payments to, the States would be made in due course. This position was made clear to the State Governments concerned. For the years 1949-50 to 1952-53, the rate of recovery was Rs. 52 per acre/hour while for the year 1953-54, the rate was Rs. 55 per acre/hour. The accounts of the Central Tractor Organisation for 1953-54 disclosed a profit of Rs. 18.43 lakhs. The reasons for the surplus were:

- (i) the recovery rate for kans was maximum that year compared with the preceding and subsequent years the rate being Rs. 55 per hour/acre as against Rs. 52 for the year 1952-53 and Rs. 40 for the year 1954-55 and Rs. 35 for the years 1955-56 and 1956-57.
- (ii) the output per hour (.91 acre) was the highest achieved by C.T.O.
- (iii) the number of hours worked was also very high. The total hours worked and the output per hour during 1950-51 to 1956-57 were as under:—

	Total hrs.	Output per hour
		Acre
1950-51	2,29,844	.87
1951-52	4,18,860	.90
1952-53	4,56,370	.86
1953-54	4,80,216	.91
1954-55	3,66,040	.87
1955-56	2,69,728	.84
1956-57	2,66,410	.73

- (iv) With effect from 1953-54, the expenditure on ordinary repairs was also debited to the Repair and Renewal Reserve Fund and not to the Reclamation Operations Account which was the practice till then but which practice was revised with effect from that year as it was found that the provision which was being made for repair and reserve from year to year was far in excess of actual expenditure on repairs and renewals.
- (v) A statement comparing the actual cost of reclamation with the rate at which recovery was effected from State Governments for the years 1947-48 to 1956-57 is attached. (Enclosure I).

3. The prices of Agricultural commodities during the years 1950-51 till 1953-54 were reasonable and there was little or no difficulty in getting suitable land for reclamation. In 1954, due to fall in the prices of agricultural commodities, the State Governments were opposed to giving work to the Central Tractor Organisation at the then existing rate as the cultivators were not willing to pay a higher rate. The rate for 1954-55 was accordingly fixed at Rs. 40 per hour/acre, on the 5th March, 1955 and it was decided on 24th February, 1954 in consultation with the Ministry of Finance and the Planning Commission that the loss would be met by the Central Government. In 1955 the State Governments requested for a further reduction in the rate on the ground that the cultivators did not want the Central Tractor Organisation to reclaim the lands at the existing rates on account of the then prevalent low prices of foodgrains. It was accordingly decided on 19th March, 1956 to reduce the rate to Rs. 35 per acre/hour in case of reclamation of kans-infested lands. These rates have continued for the year 1956-57.

4. The Government agreed to meet the loss incurred by C.T.O. on account of the low rates of recovery in respect of Kans Clearance on the condition that the net deficiency for all types of work for the years 1955-56 to 1957-58 would not exceed Rs. 50 lakhs and that every effort would be made to bring down the cost of operations. Considerable economy by way of closing down of one of two workshops of C.T.O., abolition of certain posts and ban on further recruitment has been effected in the Central Tractor Organisation consequent upon this. The deficiency in the accounts during the period 1955-56 to 1957-58 is as follows:—

					Rs. in Lacs	
1955-56	.	.	.	.	45	
1956-57	.	.	.	.	27.55	(Provisional)
1957-58	.	.	.	.	2.71	(Estimates)
					<hr/> 75.26 <hr/>	

However, as against the above operational loss there has been a profit of Rs. 7,20,857 during 1955-56 and 1956-57 out of sales of surplus capital—Equipment and other stores.

The year-wise break up of the latter is as under:—

Profit from the sales of surplus equipment and other stores during 1955-56	..	Rs. 3,35,637
Profit from the sales of surplus equipment and other stores during 1956-57	..	Rs. 3,85,220
TOTAL	..	Rs. 7,20,857

5. The reasons for the estimates of deficiency (made at the time of fixing the rates at Rs. 35) proving short were as follows:—

1. The estimate of working hours was in excess of the actuals as shown below:

					Working hours		
					Original Estimates	Revised Estimates	
1955-56	.	.	.	.	3,19,093	2,69,728	(Actual)
1956-57	.	.	.	.	3,50,880	2,66,410	(Actual)
1957-58	.	.	.	.	3,53,416	2,41,868	(Estimates)

The reasons as to why the actual working hours fell far short of the estimates are indicated in the attached note (Enclosure II).

2. It was estimated at the time of the lowering of the rates of recovery, that the actual cost of operations will be of the order of Rs. 40 to Rs. 32·3 per hour respectively but it was dependent on the following changes in the accounts procedure suggested by the Central Tractor Organisation:—

- (i) The life of D-8 tractors was proposed to be increased from 10,000 hours to 12,500 hours for purpose of depreciation; the life of ploughs was proposed to be increased to 5 years from 4 years; similarly for Oskosh equipment, the life was proposed to be increased to 7 to 8 years from 4 to 5 years.

The savings from these changes were estimated at Rs. 6 lacs.

- (ii) The provision for repair and renewal reserve was proposed to be reduced to 75 per cent. from 100 per cent.

The saving estimated from this was about Rs. 20 lacs. Two statements showing how the savings of Rs. 6 lacs and Rs. 20 lacs (round) referred to above have been calculated are enclosed. (Enclosures III and IV).

Since these changes were not effected the estimates of deficiency were exceeded.

6. The note about economies effected in the Central Tractor Organisation (referred to in para. 84 of the 23rd Report of the Public Accounts Committee) has already been submitted to the Lok Sabha Secretariat on 4th July, 1957 after it was vetted by audit.

This note has been seen by Audit.

KRISHAN CHAND,
Joint Secretary.

Enclosure I

CENTRAL TRACTOR ORGANISATION

Statement showing the rates of recovery and the actual cost of operations

Year	Rate of recovery		Actual cost		Cost per acre	Profit		Loss		Progressive total of losses		Remarks
	Old units	New units	Old units	New units		Old units	New units	Old units	New units	Old units	New units	
	Per hour/acre		Per hour			In lakhs of Rupees		In lakhs of rupees		In lakhs of rupees		
1	2	3	4	5	6	7	8	9	10	11	12	13
1947-48 to 1949-50	Rs. 17-8-0 plus cost of P.O.L. & Transport	..	Rs. 17-8-0 plus cost of P.O.L. & Transport,	..	..	..	..	8.62*	..	..	..	*Subsequently re-covered in the year 1951-52.
1950-51	Do.	52.00	29.50	51.00	58.00	..	..	11.01	9.54	11.01	9.54	
1951-52	Do.	Do.	24.90	49.75	55.60	3.30	10.56	14.73	20.10	
1952-53	..	Do.	..	51.11	59.36	0.42†	23.58	14.73	43.68	†Subsequently re-covered.

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Less : AMOUNT ADJUSTABLE TO REPAIR AND RESERVE ACCOUNT BUT ORIGINALLY DEBITED TO RECLAMATION OPERATION ACCOUNT AND SUBSEQUENTLY READJUSTED AS PER GOVERNMENT LETTER No. F.8-182/53-LR DATED 11TH SEPTEMBER, 1954.

Rs. '42

Rs. 14.31†

81.53

Amount recovered from V. P. Government for Maikala Scheme Net losses

†As against this a profit of Rs. 14,38,186 was made upto 1956-57 on sale of capital equipment and spares of the old units

Note : —(1) The figures for 1955-56 and 1956-57 are exclusive of interest on Capital Outlay as interest on the Capital Outlay is not to be accounted for in the Financial account as per instructions vide Ministry of Finance (Deptt. of Economic Affairs) O. M. No. F. 10(37)-B/54 dated 30th May 1956. The interest on the net capital outlay for the years 1955-56 and 1956-57 works out to Rs. 11.05 lakhs and Rs. 9.48 lakhs respectively. Inclusive of interest, the cost of operations per hour for 1955-56 and 1956-57 works out to Rs. 53.85 and Rs. 46.08 respectively.

(2) In the accounts for 1956-57 a sum of Rs. 8.14 lacs representing the pay and allowances of Technical Staff in units engaged in repair of tractors etc., has been adjusted to Repair and Renewals Reserve Account as it actually relates to the expenses for Repairs which are debitable to the Repairs and Renewal Reserve Account.

Enclosure II

Note in explanation of para. 5: (The reasons as to why the actual working hours fell far short of the estimates).

The original estimates were prepared in February 1956 and were based on many assumptions. The shortfall has occurred due to these assumptions not coming true. The position is explained below:

1. The distribution of units envisaged and the actual distribution during the operation seasons 1956-57 and 1957-58 are different.

	1956-57		1957-58 (Upto March 58)	
	Planned	Actual	Planned	Actual
Kans	10	11	3	8
Jungle Clearance	4	3	4	3
Land Development	2	2	4	3
Levelling . . . . .	..	..	.	1
	16	16	11	15

2. The location of some of the units had also to be altered as a result of (1) above.

3. The average number of hours per unit per season (financial year) during the seasons 1956-57 and 1957-58 in Kans clearance, Jungle clearance and Land Development Operations was assumed as under:—

	hrs.
Kans clearance	22,500
Jungle clearance (Assam)	15,000
Land development	25,718

These figures were the averages in the various operations during the previous seasons and thus had taken into account the various factors prevailing then. For the season 1955-56, they were worked out taking into consideration the circumstances prevailing then. This is explained in the following paragraphs.

4. In the previous seasons, in Kans Clearance, the clearance operations used to be started by the middle of October and plowing operations by 1st January. However, during the seasons under consideration this was not possible. During the season 1955-56 there was a controversy about the rates to be charged to the State Governments in Kans clearance. The State Governments wanted the rate to be brought down to Rs. 35 per acre/hour. The Government of India were greatly concerned about the extent of subsidy that would be required by the Organisation and considered the

issue in all its aspects for three to four months. This stalemate caused on account of the non-finalisation of rates resulted in the late start of operations in some units. The rates were finalised only on 19th March, 1956 and the units in former States of Madhya Pradesh and Madhya Bharat started only by the last week of March. The other units in Uttar Pradesh and Bhopal had, however, started operations in the month of December. This meant that major portion of the season had been lost.

During the season 1956-57 the ban on Rabi sowing was not enforced by the State Government. The entire pre-harvest period therefore could not practically be utilised for plowing in most of the units.

5. Average figures of output per unit given above have taken into account the operation of the Bonus system. However, during the season 1955-56, in view of the fact that future of the C.T.O. was decided only in March, the bonus proposals could be finalised and announced to the units only by the middle of May. This had adverse consequences on the output. During the season 1956-57 the workers of the Central Tractor Organisation deliberately adopted a go-slow policy. The bonus scheme was not made use of to the usual extent by them nor did they take advantage of the scheme for payment of overtime wages for work done on Sundays and Gazetted holidays. The practice during the previous seasons for the workers was to work on alternate Sundays and Gazetted holidays and earn the overtime wages. This attitude of the workers was also responsible for the non-achievement of the expected hours of work.

6. During these seasons there were frequent interruptions in the operations due to abnormal rains. In certain cases the late winter rains had delayed the start of operations.

7. The lands offered for reclamation during these periods were those which had earlier been rejected as being not fit for reclamation on account of the heavy clearance that would be required. This had consequent adverse effect on the operations.

8. The non-availability in India of the spare parts required in the repair of tractors was another factor in the non-achievement of the expected figures of hours of work.

Enclosure III

Statement showing provision for repairs and renewals reserve account on the existing methods of 100% of depreciation and the proposed revised method of 75 per cent. of depreciation.

Year	Existing method	Proposed method	Saving
1955-56	35,89,690	26,92,268	8,97,422
1956-57	30,49,399	22,87,049	7,62,350
1957-58	20,20,881	15,15,661	5,05,220
	<u>86,59,970</u>	<u>64,94,978</u>	<u>21,64,992</u>

Enclosure IV

Statement showing the Depreciation of D-8 Tractors, Oskosh Trucks and Plows on the existing and the proposed methods.

Year	D-8 Tractors				Oskosh trucks			Plows		
	Actuals based on 10000 hrs.	Estimated on 12,500 hrs. life	Saving	Actual (7 yr.)	Estimated on 8 years life.	Saving	Actual Depreciation	Estimated Depreciation (by reducing 1/5th of Actuals)	Saving	
1955-56	4,80,567	3,30,861	1,49,706	3,35,678	2,79,732	55,946	4,50,380	3,60,304	90,076	
1956-57	5,08,540	3,57,916	1,50,624	3,35,676	2,79,730	55,946	2,41,607	1,93,287	48,320	
1957-58	3,98,109	4,34,658	(-)-36,544	3,46,512	2,88,760	57,752	Book value of the plows in use almost nil.			
	13,87,216	11,23,430	2,63,786	10,17,866	8,48,222	1,69,644	6,91,987	5,53,591	1,38,396	

Estimated total saving = Rs. 5,71,826.

APPENDIX XXXVIII

No 7-48/57-LR

New Delhi, the 8th December, 1957.

Note from the Ministry of Food and Agriculture (Department of Agriculture) regarding rates charged by agencies other than the C.T.O. for the type of work done by the C.T.O. under para. 84 of the Twenty-third Report

Question: Rates charged by agencies other than the Central Tractor Organisation for the type of work done by the Central Tractor Organisation.

In the meeting of the Public Accounts Committee held on the 6th November, 1957 the Chairman of the Committee asked for information about rates charged by agencies other than the Central Tractor Organisation. Tractorisation schemes are being run by a few States e.g., Punjab, U.P., M.P., West Bengal, Bombay, Madras and Mysore, but generally speaking the tractors with the State Governments are not as heavy as those with the Central Tractor Organisation and the work done by them is also of a lighter nature. These States are also not keeping commercial accounts of their reclamation schemes with the result that suitable data for comparison with the Central Tractor Organisation's cost is not available. The information available about the rates charged by State Governments is for 1953-54. The rate charged by the Bombay Government for deep ploughing upto a depth of 12" to 14" was Rs. 30 per acre. The former Madhya Bharat Government also charged Rs. 30 per acre while the Punjab Government charged Rs. 35 per acre for ploughing of Banjar land upto a depth of 6" to 12"

The rates charged by the Central Tractor Organisation for kans clearance work which normally involves ploughing (to a depth of 12" to 14") from the year 1952-53 are given below:

1952-53	Rs. 52 per acre.
1953-54	Rs. 55 per acre.
1954-55	Rs. 40 per acre.
1955-56 onwards	Rs. 35 per acre.

2. The Pepsu Government launched a scheme of land reclamation by tractors to be executed by private agencies under the Second Five Year Plan. The rate of recovery per acre under the scheme is

understood to be Rs. 100 per acre, the break-up of which is given as follows:

	Rate per acre.
1. Clearance of Jungle trees and bushes including stacking upto a depth of 18" below ground level.	Rs. 56
2. Ploughing upto a depth of 6"	Rs. 26
3. Discing upto depth of 6".	Rs. 10
4. Heavy planking (Sohaga).	Rs. 5
5. Expenditure on staff, etc.	Rs. 3
TOTAL	Rs. 100

This is as against the Central Tractor Organisation's charges of Rs. 50 per hour for jungle clearance work. For clearing the jungle, the Central Tractor Organisation spends on an average between 5 to 6 hours per acre in places other than Assam. In Assam the Central Tractor Organisation tractors take some 6 to 8 hours in clearing an acre. The rate charged from the Assam Government for jungle clearance work is Rs. 315 per acre.

This note has been seen by the Audit.

AMEER RAZA,
Joint Secretary.

APPENDIX XXXIX

Statement showing action taken by the Ministry of Food and Agriculture (Department of Agriculture) on the recommendations of the P.A.C. made in their Twelfth Report regarding Pashabhai Patel Implements case.

Sl. No.	Recommendations of P.A.C. along with the numbers of the relevant paragraphs of the Committee's Report	Action taken	Remarks, if any
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1	2	3	4
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1 *Paras 4 & 8 of the Report :*

The P.A.C. have referred to the question of Government decisions on the recommendation made in the report submitted by Shri Divatia.

The Govt. of India have examined all aspects of the matters, and have come to the following conclusions :—

(i) The material available is not sufficient to sustain criminal charges against any of the parties concerned, and no useful purpose will be served by initiating, at this distance of time, any police investigation to obtain further material, if any, of an incriminating nature against the persons responsible for the transaction.

(ii) As for Civil Action against the firm, since the liability of the firm to make good defects, etc. is limited, under the terms of the relevant contract, to a period of one year from the date on which the implements are taken over, Government do not have sufficiently strong case to go to a Civil Court or arbitartors.

(iii) As for Departmental action against the officers concerned, two of the officers mainly concerned have since retired. One officer has died. Under existing rules the pension of retired officers cannot be withheld or reduced. The question of amending the pension rules with a view to taking action in such cases is already under consideration of Government. It is also being examined whether the rules should be amended with retrospective effect. Two other officers who were involved in this have also retired. One officer was dismissed from Government service subsequently in some other case.

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Three officers were warned for not doing their duty more vigilantly. A more drastic punishment for them was not considered justified in the circumstances of the case. Another officer migrated to Pakistan at the time of Partition.

As regards the remaining officers it was not considered necessary to take any disciplinary action against them considering all the circumstances of the case.

It was decided that in the circumstances it would be best if the matter is settled out of court with the firm.

Accordingly, after discussions with the firm, it was decided that a sum of Rs. 3,35,650 should be accepted from the firm to meet the cost of rehabilitation of the implements in final settlement of the case in as far as they (the firm) are concerned. The amount has already been recovered from the firm.

All Ministries, subordinate offices etc. of Govt. have been asked to exercise special care in their dealings with the firm of Pashabhai Patel & Co., especially if they desire to place orders for locally fabricated articles.

2. *Paras 4 and 10 :*

The following are extracts from the report :—

“The Sub-Committee also regret that Government have not so far been able to apprise them of the final decision taken on the recommendations made in the report of Mr. Girsperger, F.A.O. Expert, a copy of which was made available to the Committee in February, 1954.”

250 implements of each of the five types indicated below were manufactured and supplied by M S Pashabhai Patel & Co :—

Mouldboard Ploughs, Disc Ploughs, Pan-breakers, Disc Harrows, One Way Discs.

The F.A.O. Expert, Mr. Girsperger, recommended modification of all implements except the one Way Disc. With regard to the One Way Disc, the Expert expressed the opinion that it would be uneconomical to modify them. This conclusion was arrived at by the Expert after trials conducted in New Delhi.

“The Sub-Committee have not so far been informed of reports received on the working of these modified implements.”

The type of the implements and the approximate number of each type which can be modified, according to the recommendations of F.A.O. expert, are indicated below :—

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"The Expert has also suggested that all State Agricultural Departments should be furnished with copies of the specification, etc. of these implements and they should be urged to cover their requirements from the stocks available with the C.T.O. It is not known to the Sub-Committee whether any action has been taken by the Government to implement this suggestion of Expert."

Implement	Total No. Purchased	Approximate No. capable of rehabilitation.
Disc Plough	250	220
Mouldboard Plough	250	150
Disc Harrow	250	220
Panbreaker	250	220

After the departure of the F.A.O. Expert it was decided to carry out further extensive trials in the field. A few implements of the various types were modified according to the recommendations of the Expert and sent for field trials with the C.T.O.'s tractor-units. A few implements were also sent for trials to State Governments and some firms. The table below indicates the number of implements of various types which were modified :

Implement	Total No. Modified
Mouldboard Ploughs	2
Disc Harrows	2
Panbreakers	9
Disc Ploughs	19

The total number of implements recommended for modification by Mr. Girsperger was 810. The position regarding the remaining 190 (4X250 minus 810) implements is as follows :—

No. damaged beyond repair..... 121

No. sold (*i.e.*, those sold from the implements modified by Mr. Girsperger himself and those sold previously) 42

No. previously dismantled and consumed..... 27

TOTAL..... 190

The total expenditure on modification of the 32 implements was Rs. 83,076/-. Separate figures of expenditure for each type of implement are not available.

Conclusions from the test reports received in respect of each of the types of implements modified are given below :—

Disc harrow : Very little modification is required and this implement can be used with advantage for follow-up cultivation.

Mouldboard Plough: This can be used, after modification, for follow-up cultivation.

Panbreaker: This is a useful implement for arresting Kans re-infestation in cultivated soils and as such can be used by firms with advantage.

Disc Plough: Although there were a few breakages in these implements they compare favourably with other makes of the same type of equipment.

Circular letters were issued by C.T.O. to 23 officers of various departments of the State Governments offering for sale the different types of Pashabhai implements. 21 Officers have sent their replies stating that they are not interested in purchase of implements. Against a few demands received from certain departments of the State Governments and private parties, the following implements have been sold. Sale price noted against each :—

		Rs.	
Disc Harrow	11	24,687	12 0
Disc Ploughs	17	72,720	0 0
Panbreakers	6	32,592	0 0
Mouldboard Ploughs	8	49,490	0 0
Disc-tillers	34	1,11,471	0 0
TOTAL	76	2,90,960	12 0

Of the 76 implements referred to above 6 pan-breakers, one Disc Harrow and one Disc Plough were sold after modifications and the remaining were sold in their original form. The sale of the implements has resulted in a profit of Rs. 11,032/- the book value being Rs. 2,59,159-12-0 and the cost of modification Rs. 20,769/-. The exact cost of modification for individual implements is not known. The total cost of modification of 32 implements was Rs.83,076/- and the figure of Rs.20,769/- is 25% of the total cost, the number of modified implements sold being eight.

3. Para 5:

"In the circumstances, the sub-Committee can do no more than to express their disapproval of the delay in arriving at Government decisions specially in the matter of taking of disciplinary action against the officers responsible for committing the following alleged important types of irregularities :—

As the efforts made by C.T.O. to dispose of implements have not been very successful, new steps for quick disposal through the agency of the Director General of Supplies and Disposals are now under consideration.

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- (i) Selection of contracting firms without inviting tenders;

It was because the implements were not readily available in foreign countries that the Govt. of India decided to get the same manufactured locally. Several Indian firms were then contacted but the choice finally fell on M/S Pashabhai Patel & Co., Ltd. This firm had indicated at that time that they would be getting the technical assistance of a leading U.S. firm of agricultural machinery manufacturers. The decision to place the order on M/S Pashabhai Patel & Co. was a joint decision of the Ministries of Agriculture, Supply and Finance. As already stated before placing orders on this firm, enquiries were made of other manufacturers of agricultural implements, but their response was poor. It is now felt that as this was a completely new line and Messrs. Pashabhai Patel had no greater previous experience of such manufactures than other possible suppliers in the country, it would have been more satisfactory to have called for tenders in this case.

- (ii) Drawing up of contracts in vague and indefinite terms and failure to embody in the contract the assurance given by the firm to obtain the blue prints, drawings and technical assistance from their American principals. Messrs. Allis-Chalmers Corporation.

Although the firm's assurance regarding blue-prints etc. was one of the considerations which weighed with Government in selecting the firm, the omission to embody the assurance in the contract is not serious for the following reasons :—

A. The final choice of most of the implements was not for types similar to those manufactured by M/S. Allis Chalmers Corporation.

- (iii) Failure on the part of the Director General, Supplies and Disposals to take stricter guarantees from the supplying firm about technical advice etc., the firm had no previous experience of manufacturing implements.

B. At the time of final negotiations with the firm by the three Ministries it was known that the firm did not have in writing any promise of technical assistance etc., from the U.S. firm, and it was no doubt considered that Government interests would be adequately safeguarded by the conditions in the contract stipulating production of acceptable advance samples. The fact that the condition in the contract regarding production of acceptable advance samples was not enforced was due to lack of adequate vigilance on the part of Government Officers concerned and this has been commented upon separately in reply to item 1 above.

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(iv) Lack of co-ordination between the indenting and supplying departments and especially between the two Finance Officers attached to these departments in the matter of price fixation.

Greater co-ordination will be enforced in future by insisting on fresh financial concurrence whenever the original estimated cost of an indent is substantially exceeded. Even under existing rules such consultation is obligatory when the original estimate is exceeded by 10%. This rule will be strictly enforced in future.

(v) Changing of specifications from time to time without calculating the effect of this change on the ultimate cost of the contract and not finalising them before the placing of indent.

Reference has been made to this in para 3 of the Chairman, P.A.C.'s note presenting the report also. It has been stated there that the Committee observe that this (changing of specifications from time to time) is a very serious lapse on the part of the indenting as well as the supplying departments and should be severely dealt with.

The main responsibility in the matter is that of an officer of the Ministry of Food and Agriculture who has since retired. Under existing rules no action is possible against the officer. The question of amending the pension rules with a view to taking action in such cases is already under consideration of Government. It is also being examined whether the rules should be amended with retrospective effect.

(vi) Undue indulgence shown by the Director General, Supplies and Disposals in not enforcing the remedies provided under the contract when there was clear breach of several terms of the contract".

The position in this regard, as ascertained from the Ministry of Works, Housing & Supply, is as follows :—

"Although the contract provided that the delivery against all the items was to be completed within a certain specified date, this was not possible due to the following reasons :—

a) Aircraft Factory at Poona which was originally intended to be given to the firm for carrying out manufacture of the implements was not available and as such another Factory was leased out to the Firm on 1-3-1947.

(b) Non-availability of requisite quantity of steel, bolts, nuts, etc., in time.

(c) The delivery programme was upset as the order of priority originally indicated by the indenter was subsequently changed as a result of which the Firm had to suspend manufacture of some

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items and switch over to the production of some other items.

(d) Modification in the design of the implement by the indenter in respect of all the items which also involved provision of extra quantity of steel.

(e) Necessity for replacement of a large number of parts of machines leased out to the firm by the Government also interrupted production of certain items.

In view of the above, the remedies provided in the contract, namely—

(a) imposition of liquidated damages,

(b) risk purchase, and

(c) cancellation of contract for delay in supply,

could not be enforced. Strict enforcement of the terms of contract in this respect was also not considered advisable, particularly as the Firm were manufacturing these implements for the first time in the country". As regards non-enforcement, of remedies under the other alleged breaches of the contract, attention is invited to the remarks under S. No. 1 and clause B of the remarks under S. No. 3 above.

4. *Para 11* During their visit to the Central Tractor Organisation Workshops at New Delhi and Bairagarh (Bhopal), the Sub-Committee saw how the Pashabhai implements were lying idle there and rusting with the efflux of time. A large number of these implements were lying exposed to the inclemencies of the weather.

The implements are either stored at the Central Stores Depot of the Central Tractor Organisation at New Delhi or at Bairagarh, and on account of paucity of covered accommodation at both these places, they are lying in the open.

5. *Para 12* : The Central Tractor Organisation should not proceed with the wholesale rehabilitation of these implements until the utility of the rehabilitated implements has been established and the State Governments place firm orders for their purchase.

Recommendation accepted.

"Government should arrive at an early decision in this matter as they (the Public Accounts Committee) feel that it is unfair to

Government have decided to exclude from Central Tractor Organisation's reclamation charges the interest on capital invested in the purchase of the

the cultivator to include the amount of interest on the capital invested in the purchase of Pashabhai implements in the cost per acre for reclamation of land recoverable from him."

6. *Para 13 :* The Sub-Committee regret to observe that the Ministry of Works, Housing and Supply have not only taken too lenient a view in awarding censure punishment to the officers who had been guilty of dereliction of their duties, but have sought to shift the responsibility on to the Ministry of Food & Agriculture. They would draw attention to para 33 of the First Report of the Public Accounts Committee criticising the lack of co-ordination between the various Ministries and strongly urge that this case should be reconsidered by both the Ministries and the action taken by them against the officers concerned be reported to the Public Accounts Committee as early as possible.

implements." The cost of the implements has been transferred from Central Tractor Organisation accounts to a separate head under the Ministry of Food and Agriculture.

The Ministry of Works, Housing & Supply has been consulted in the matter. In coming to the decision that an oral warning would be adequate for the lapse on the part of the junior Inspecting Officer, that Ministry took into consideration various extenuating circumstances. The Public Accounts Committee had already been informed of these circumstances by that Ministry. One of the considerations taken into account by that Ministry was that having had no experience of the type involved in the Pashabhai Patel implements transaction and not being in possession of complete specifications, the Inspecting Officers were guided by the technical experts of the Ministry of Food and Agriculture. This statement was, however, qualified by the admission that the Senior Inspection Officers should have taken steps to define the area of responsibility as between the Inspection Officers and the technical experts of the indenting departments. As such, the Ministry of Works, Housing and Supply have emphasized, it was never their intention to seek to shift responsibility to the Ministry of Food & Agriculture.

The Ministry of Food & Agriculture and the Ministry of Works, Housing and Supply have re-examined the question of taking action against the officers concerned, and the joint decision of both Ministries is that in view of the extenuating circumstances of the case no further action against the Inspection Officers is called for.

The above replies have been vetted by audit.

KRISHAN CHAND,
Joint Secretary.

APPENDIX XL

No. PII-216(7)/52/II

*Note from the Ministry of Works, Housing and Supply regarding
Pashabhai Patel Implements case*

1. *Whether warnings have been recorded in the Character Rolls of the three officers?* The decision to issue warning to the three junior officers responsible for inspection of the stores, was communicated to the Director General, Supplies and Disposals, New Delhi on 19th June, 1954. One of the officers had retired on 27th January, 1954 and so the question of administering a warning to him did not arise. The remaining two officers were administered a warning but as the intention was not to formally censure them, copies of such warnings were not placed on their character rolls.

2. *How many of these officers are still in service?* Two officers are still in service under the Director General, Supplies and Disposals.

The 16th January, 1958.

M. R. SACHDEV,
Secretary..

APPENDIX XLI

No. 7-52/57-LR.

New Delhi-2, the 11th March, 1958.

Note from the Ministry of Food and Agriculture (Department of Agriculture) regarding Pashabhai Patel Implements case.

The Lok Sabha Secretariat forwarded, *vide* their Office Memorandum No. 66-PAC/57, dated 26th November, 1957, a list of points on which the Public Accounts Committee, at the sittings held on the 5th, 6th and 8th November, 1957 desired to be furnished with further information. Item 10 of the list of points, which relates to the Pashabhai Patel implements is dealt with below.

Item 10.—(a) What was the initial Estimate made by the Central Tractor Organisation or Government to make these implements workable?

Prior to the framing of Estimates by the F.A.O. Expert, the Central Tractor Organisation did not at any stage prepare its own estimates of the cost of repairs nor did the Ministry of Agriculture do so. Estimates could be prepared only when the exact defects and the repairs necessary had been ascertained. Neither the Central Tractor Organisation nor the Ministry were in a position to ascertain them accurately and this was the reason why it was considered necessary to entrust the work to an F.A.O. expert.

The question of modifying the Pashabhai Patel implements was taken up for consideration by the Central Tractor Organisation only after the services of an expert had been obtained from the F.A.O. for the specific purpose of securing his expert advice on rehabilitation measures.

In a letter dated 6th August, 1953 to the then Director of Operations Central Tractor Organisation the then Chairman of the Organisation, quoted the F.A.O. Expert as having said that the approximate cost of rehabilitation would be Rs. 10 lakhs. It is, however, observed from the Expert's note dated 30th April, 1953 which was submitted by him to the Chairman, that the total cost of rehabilitation even if all the implements were to be rehabilitated would be only Rs. 5,62,500. Actually the F.A.O. Expert had only indicated the cost of rehabilitation per implement for each type of implement and had not struck the totals. It seems the Central Tractor Organisation Chairman made a miscalculation of the total estimated cost. The difference between the above figure of Rs. 5,62,500 and the estimated cost of rehabilitation (Rs. 3,60,600), the latter being the final amount re-

commended by the F.A.O. Expert, is due to the fact that the latter figure represented the estimated cost of rehabilitation of only such of the implements as were considered to be capable of economic rehabilitation. The F.A.O. Expert took the view that the one way discs were not capable of economic rehabilitation.

10. (b) *Was the Cabinet informed of the views of the Ex-Chairman, Central Tractor Organisation regarding the utility of rehabilitated implements?*

Since the Chairman, Central Tractor Organisation did not convey to higher officers any opinion differing from the views of the latter, and since he was fully aware of the said views, the question of specifically informing the Cabinet of his views did not arise. Besides as *ex-officio* Deputy Secretary in the Ministry, his views formed part of the views of the Ministry, especially since he had not expressed any conflicting opinion.

The Chairman, Central Tractor Organisation was aware of and associated with the various developments relating to the Pashabhai Patel implements case from the very beginning i.e. from the time the case was being prepared for reference to the Cabinet. The incumbent of the post of Chairman of the Central Tractor Organisation as mentioned above was also *ex-officio* Deputy Secretary in the Ministry of Agriculture, and in both these capacities he was associated with the case. The question of seeking his opinion through a formal communication did not arise. The following further facts would also show that there was no by-passing of the Chairman.

The draft of the note proposed for the Cabinet had to be sent to the Ministries of Home Affairs, Finance and W., H & S. on more than one occasion in order to get their concurrence to the contents. The Chairman, Central Tractor Organisation was functioning as *ex-officio* Deputy Secretary in the Ministry at the time. The D.O. letters to the various Secretaries forwarding the revised draft of the Note for the Cabinet were signed by him. Again, the draft note (for the Cabinet), in its final form was submitted to the Secretary, Ministry of Agriculture by him.

A statement in writing by the Chairman, Central Tractor Organisation exists which shows specifically that he was associated with the negotiations which the Committee of officials (Appointed by the Cabinet) was having with the firm. It was the Chairman, Central Tractor Organisation who on 12th March, 1954 communicated the following numbers of Pashabhai Patel implements as being capable of economic rehabilitation:—

Mouldboard Ploughs.	.. 168
Disc Ploughs.	.. 210
Panbreakers.	.. 233
Disc Harrows.	.. 234
One Way Discs.	.. NIL

These figures exclude those implements which had already been rehabilitated. It is significant that the above figures, along with the small number of implements which had already been rehabilitated, are the very figures which were accepted by the Committee of Officials for purposes of compensation from the firm. Chairman, Central Tractor Organisation was thus directly associated with one of the two elements entering into the calculations on the basis of which the Committee decided to accept a sum of Rs. 3,35,650 from the firm. In this connection it is relevant to mention that the Chairman, Central Tractor Organisation had personally inspected the implements both at Delhi and Bairagarh, in order to verify a Central Tractor Organisation Engineers' report regarding the number of implements fit for rehabilitation. The only other factor directly involved in the calculations on the basis of which the Committee and later the Cabinet arrived at the figure of Rs. 3,35,650, was the estimated cost of rehabilitation for each type of implement. The rates adopted in this regard were those which had been recommended by the F.A.O. Expert. Here again Chairman, Central Tractor Organisation was fully aware of the estimates prepared by F.A.O. Expert. The following facts are mentioned in this connection:

- (A) On 30th April, 1953 the F.A.O. Expert submitted a note giving his estimates of the cost of rehabilitation. This note was available in the Central Tractor Organisation and in fact it was the Central Tractor Organisation who first forwarded a copy of the note to the Ministry officially. The Central Tractor Organisation sent the note to the Ministry in June, 1953, under the orders of the Chairman, Central Tractor Organisation and he saw the note in the Central Tractor Organisation.
- (B) In any case the CTO's communication referred to in (A) above, with which the F.A.O. Expert's note dated 30th April, 1953 was sent, was seen by Chairman, Central Tractor Organisation in the Ministry in his capacity as *ex-officio Dy. Secretary*.
- (C) On 3th March, 1954 the Chairman, Central Tractor Organisation in his capacity of Dy. Secretary approved and passed on to Joint Secretary the draft of a reply to a Rajya Sabha Question in which the F.A.O. Expert estimates were mentioned.

Chairman, Central Tractor Organisation was fully aware of and was associated with all the developments relating to the adoption by the Committee of Officials of the factors taken into account while calculating the amount to be accepted from the firm as compensation for rehabilitation of the implements.

As the Chairman, Central Tractor Organisation was associated with the progress of the case, it was for him to bring to the notice of the Joint Secretary concerned in the Ministry (i) his misgivings about any possible errors of judgment, or (ii) recommendations of a suspicious nature (those designed to benefit the firm at the cost of Government) on the part of the F.A.O. Expert. In the available papers there is nothing on record to show that this was done. On the other

hand, the fact that he endorsed the Central Tractor Organisation Engineer's acceptance of the F.A.O. Expert's Report, can only mean that the Chairman, Central Tractor Organisation, had no reason to disagree with the Expert's views.

No doubt a letter was sent by the Chairman, Central Tractor Organisation on (6th August, 1953) to his Director of Operations in which he raised some doubts about the work of F.A.O. Expert (copy enclosed). But these doubts were of a general nature and in any case he does not seem to have pursued them. The Director of Operations gave a reply (copy enclosed) to Chairman, Central Tractor Organisation's letter, and to all intents and purposes the matter seems to have rested there. The only possible inference is that the doubts expressed in his letter (sent in August, 1953) were subsequently cleared. It is also relevant to point out here that in a note submitted to Secretary on 15th December, 1953 Chairman, Central Tractor Organisation did not make any reference whatsoever to his doubts.

There was thus no case of Chairman, Central Tractor Organisation having been in the dark about the developments or his not having had an opportunity to present his opinion.

10. (c) *Was either the Chairman, Central Tractor Organisation or the Ministry consulted by the Sub-Committee of the Cabinet appointed to go into this case?*
10. (d) *Did the Ministry express their views to the Sub-Committee of the Cabinet on the Report of Mr. Girspergers?*

Apart from the fact that the Minister for Food and Agriculture was a member of the Cabinet Sub-Committee some of the meetings of the sub-committee were attended by an officer of the Ministry of Agriculture. Besides, the Cabinet Sub-Committee as also the Committee of officials were proceeding with the case on the basis of material furnished by the Ministry of Agriculture and other Ministries. As for the Committee of Officials appointed by the Cabinet, a Joint Secretary of the Ministry of Agriculture was a member.

As a Joint Secretary of the Ministry of Agriculture was holding direct over-all charge of the Central Tractor Organisation and the same Joint Secretary was a member of the Committee of Officials and also since the Minister for Food and Agriculture was a member of the Cabinet Sub-Committee the question of the Chairman, Central Tractor Organisation being directly consulted by the Cabinet Sub-Committee did not arise. But as explained in the foregoing paragraphs the Chairman, Central Tractor Organisation was associated with the progress of the case throughout.

The Ministry of Agriculture accepted the recommendations of F.A.O. Expert and it was on the basis of this acceptance that the Sub-Committee and later the Cabinet eventually took their final decisions. The F.A.O. had made available the services of an expert to the Central Tractor Organisation after taking into account the exact nature of the work expected to be done by him. The Officers of the Ministry proper were not technically qualified to challenge or even

examine the technical aspects of his report. If anyone could comment on the F.A.O. Expert's proposals it was the Central Tractor Organisation and the Ministry had necessarily to be guided by the technical officers in the Central Tractor Organisation. Originally the preliminary estimates of F.A.O. Expert about the cost of modification were examined by the Central Tractor Organisation and they did not express any difference of opinion in the estimates. Central Tractor Organisation, however, suggested that further field trials should be undertaken with Disc plough and mouldboard plough and that only such of the implements should be modified for which there was a specific demand. Ministry of Food and Agriculture agree with the above views. Subsequently in his detailed report the F.A.O. Expert confirmed his estimates for the costs of modification and himself suggested that samples of rehabilitated implements be sent to States for demonstration purposes and to start with, small batches of say 20 implements of each type be taken in hand at a time for modification. This report not only confirmed his preliminary estimates of cost but also virtually confirmed the views already expressed by Central Tractor Organisation and the Ministry of Food and Agriculture regarding the further trials and rehabilitation programme.

The report was duly examined by the Central Tractor Organisation. They indicated that 'Generally, the Central Tractor Organisation agrees with the report of the F.A.O. Expert..... The Central Tractor Organisation's views were accepted by the Ministry. Accordingly on 10th March, 1954, while giving a reply to certain points raised by the Public Accounts Committee, it was stated that the Ministry was in general agreement with the recommendations of the FAO Expert.

With regard to the examination done by the Central Tractor Organisation, the Chairman of the Organisation had directed his Director of Operations to find out (i) whether the proposed rehabilitation would really make the implements fit for use, (ii) the economics of the proposed rehabilitation work as compared to the cost of imported implements, and (iii) whether there would be sufficient demand for the rehabilitated implements. A copy of the letter dated 6th August, 1953 in which the instructions were issued and a copy of the Director's reply are attached.

Regarding the need for a scrutiny of F.A.O. Expert's recommendations, it would be interesting to recall that when the Committee of officials was negotiating with the Suppliers of the implements in respect of the amount to be paid by the firm for rehabilitating the implements, the representative of the firm stated that the F.A.O. Experts' estimates about the costs of rehabilitation were too high and unfair to the firm. He therefore, suggested that engineers of the Supply Department might be asked to check the F.A.O. Experts' estimates. The Committee of Officials expressed their inability to do so on the ground that it would be difficult for any engineer to give any definite opinion or suggestions in this respect, particularly when the F.A.O. Expert had worked on the implements for over a year while a new engineer would have to give his opinion after a very cursory examination.

It has now come to the notice of the Ministry of Food and Agriculture that on 7th December, 1953, the Director of Administration and Operation, Central Tractor Organisation submitted a report to the Chairman, Central Tractor Organisation in which he observed as follows:—

The F.A.O. Experts' estimate of cost of rehabilitation is on the basis of mass conversion of at least hundred at a time in a workshop without as much overheads as in the Central Tractor Organisation. Divisional Engineer, Workshop, Delhi was requested to intimate the cost of rehabilitation if taken one at a time. The following gives the comparison:—

	The F.A.O. Experts' estimate.	Workshop estimate.
	Rs.	Rs.
Disc plow	750	1132/1/-
M. B. plow	400	388/-/-
Pan breakers	300	347/2/-
Disc Harrow	100	168/9/-

The above fact was, however, not brought to the notice of Government by the Central Tractor Organisation.

This note has been seen by Audit.

KRISHAN CHAND,

Joint Secretary.

Copy of D.O. No. PA/CA/CTO/1/53, dated the 6th August, 1953, from Shri Bhagwan Singh, I.A.S., Chairman, C.T.O. to Dr. R. N. Mathur, Director of Operations and Administration, C.T.O., New Pusa, New Delhi-12

As you know, with the consideration of Mr. Justice Devatia's report on P.P.C. implements being under active consideration the subject of the utilisation of these implements after rehabilitation by Mr. Girsperger has assumed importance.

Mr. Girsperger has said that after he has rehabilitated these implements at an approximate cost of Rs. 10 lacs, they will be good enough for mechanical cultivation purposes. The point that has arisen is whether it will be worthwhile to spend ten more lacs and then force it down the throats of some Government development projects. So far as individual purchasers are concerned, it is accepted on all hands that no farmer, however big, would like to purchase them due to obvious reasons e.g., (a) high cost, (b) being modified plows as opposed to original and genuine ones, and (c) bad reputation, etc.

The point is that both the Estimates Committee of the Parliament and the Ministry of Food and Agriculture are interested in knowing definitely whether it is worthwhile spending the additional Rs. 10 lacs over the proposed rehabilitation of these implements. Not only

that, it has to be seriously considered how to arrange for the spare parts for these plows which no firm has in stock, Pasha Bhai having closed down their workshop.

It has also to be ascertained whether after rehabilitation these implements will be really fit for strenuous use. I remember Mr. Girsperger himself saying that at least 250 Nos. of One-way Discs will not be able to pass any standard test after the modifications. I am afraid, Mr. Girsperger has been carrying on the publicity for his proposals wherein there is a definite fear that his proposal may be accepted without fully ascertaining in field tests under independent supervision, whether the rehabilitated implements would really stand the strain of the type of work for which they are likely to be used.

May be, I have been extra cautious, but once bitten is twice shy. Let us therefore be very definite on the following points:—

1. That the proposed rehabilitation really makes these implements fit for agricultural operation under normal conditions.
2. The economics of the proposal as compared to the imported implements of the same category.
3. Will there be enough demand for the purchase of these implements?

On examination of the above points, will depend the decision to be taken about the expenditure to be incurred on them.

I shall, therefore, suggest that a plan may be drawn for a dispassionate and independent examination of the above points. The so called tests so far conducted by Mr. Girsperger have been of extremely short duration and the results cannot be accepted to indicate any positive result.

But I think one of the plows was sent to some firm for the use on hire-basis. Their report and the report of other users, if could be available, may probably be of some interest in this connection.

SUBJECT:—*Report on the experiments conducted on the Pashabhai implements, results of field trials, cost of rehabilitation and their marketing.*

1. *Disc Plow (6 bottoms).*—Necessary modifications have been done on this plow and the field trials are in progress. Shri Girsperger has estimated that the cost of rehabilitation of this implement would be about Rs. 750 per piece.

The total cost of the rehabilitation implement which has 28" Discs would be Rs. 5,100. The 6 bottoms reducible to 5 bottoms with 28" heavy duty discs John Deere plow would cost Rs. 7377. The price of rehabilitated implement, is, therefore, competitive. It is, therefore, necessary to ascertain the working of this plow fully and a couple of them are being sent to the units for extensive field trials and for collecting data. Once we are able to get satisfactory work out of this

plow, it might be possible to get some customers including the State Governments who may have tractors of 40 to 60 D.B.H.P. The plow can also be converted to 4 bottom Disc Plow without much extra expenses for use with a 40 D.B.H.P. tractor. A couple of them have been converted to 4 bottom.

2. *Mould Board Plow (5 bottoms).*—As in the case of Disc Plow, modifications have been carried out by Shri Girsperger on the Mould Board plow. Extensive field trials are necessary and should be carried out. The cost of modifications is estimated by Shri Girsperger to be about Rs. 400. The cost of a rehabilitated piece would be Rs. 4,500. The corresponding John Deere implement (Mould board 5 bottom, reducible to 4 bottom, 70 inch cut) is quoted at Rs. 4,174. With regard to the sale of this implement similar conditions as in the case of Disc plow would hold good, since this also requires 40 to 60 D.B.H.P. tractor. This implement can also be converted to 4 bottoms for use with 40 H.P. tractors in cultivated lands.

3. *Pan Breakers (5 tynes).*—This implement requires very little modification. The estimated cost of rehabilitation is likely to be less than Rs. 300 as estimated by Shri Girsperger. A tractor of 70 H.P. is required to pull the implement with 5 tynes. To make it suitable to work behind a 40 H.P. tractor, the number of tynes has to be reduced from 5 to 3 which can be done without much extra cost.

The rehabilitated implement would cost about Rs. 6,000 as against Dyr. K.U. Subsoiler with 3 standards (Tynes) which is quoted at Rs. 5,000.

The Pan breakers are not in demand for the purpose for which they are intended. Shri Girsperger has suggested that the best that can be done is to convert them into Bukhers, in which case a few implements could be sold to State Government Farms.

Field trials on this implement have been completed and no further trials are indicated.

4. *Disc Harrows.*—The Disc Harrow requires very little modification according to Shri Girsperger. Only holes have to be prepared for Grease nipples and the cost of modification is not expected to be more than Rs. 100 per implement.

Field trials have shown that this implement can work satisfactorily with a tractor of 40 H.P. on the draw bar. The Rehabilitated Disc Harrow which has Discs 22" diameter would cost Rs. 2,360. The International Disc Harrow with 24" Discs is quoted at Rs. 2,630 and the Killefer Disc Harrow with 22" Discs, 9" spacing, 9½ ft. cut is quoted at Rs. 3,394.

Since a tractor of 40 H.P. is required to work this implement, the only possible customers are the Mechanised State Farms and the State Governments and it would be necessary to contact them.

5. *Disc Plow—One way.*—This implement according to Shri Girsperger will not be useful for any work even after extensive modifications. The best that can be done is to sell away the Discs and salvage the rest and use it as raw material.

6. Out of the 5 implements mentioned above the Mould Board plow and the Disc plow may find some market. But it is necessary to put them to extensive field trials before marketing. The prospective buyers (including the State Governments) will have to be convinced of the good working of these two implements. It will be advisable to send a few of these implements after modification to the interested State Governments, say Bhopal, Madhya Pradesh and Vindhya Pradesh, etc., for their trials. It may even be necessary to reduce the prices by about 25 per cent. to attract likely buyers. It may also be worthwhile putting an embargo on the import of similar implements till such time these are sold out and these may be kept available to be drawn upon on demand. It may also be necessary to circulate the detailed specification of the implements to all States and intimate the reduced price, if approved.

7. At present there are no spare parts available for these implements and without spare parts, it would be very difficult to market them. Even the prospective buyers would find it extremely difficult to obtain supply of spare parts. If required C.T.O. can furnish blue prints of designs of all the parts for supply along with the implements when sold. The C.T.O. workshops at Delhi and Bairagarh may be able to supply some spare parts at reasonable rates on demand.

8. It would, therefore, appear from the above that we cannot go ahead with the modification of all the implements in stock on the lines suggested by Shri Girsperger. We can only modify those for which there is a specific demand. Any mass scale modification of these implements would be wasteful.

9. Submitted with reference to Chairman's D.O. letter No. PA/CH/CTO, dated 6th August, 1953 after discussion with Shri Subbaiya, Superintending Engineer.

Sd. - R. N. MATHUR.

The 21st November, 1953.

APPENDIX XLII

Note from the Ministry of Food and Agriculture (Department of Food) pursuant to action taken on para. 78 of the Twenty-third Report regarding purchase of rice.

The Public Accounts Committee desired that enquiries should be made into the case with a view to fixing individual responsibility for the loss of about Rs. 2:67 lakhs to the Government, which, according to the Committee, was due to the lower offer of the Madras firm not being brought to the notice of the authorities who took the decision to place the order with the Bombay firm. (The difference between the Bombay firm's offer and the Madras firm's offer would actually work out to about Rs. 2:19 lakhs if the 1 per cent commission asked for by the Madras firm is taken into account).

2. The case has been investigated as desired by the Public Accounts Committee. It appears that the Madras firm's offer was placed before the then Director of Imports in the Ministry of Food, but there is no indication on the file that this offer was placed before or mentioned to any higher authority. Although those responsible for taking the final decision to place the order with the Bombay firm were aware of certain other offers, it is not possible to establish whether this particular offer of the Madras firm was mentioned or not. The general policy in the Ministry was to make purchases through the Indian Missions abroad and not to consider seriously offers from intermediaries in India. Nevertheless it is clear that the Ministry considered it necessary in the light of the food situation at the time to make a departure from this policy in order to augment the imports urgently. It was felt that it would be most imprudent to make any further delay on any account and it was considered that the Bombay firm would be in a position to deliver the goods if an order was placed with them. Considering all the circumstances of the case, the Government have come to the conclusion that the then Director of Imports should be held to have committed an error of judgment in not putting up the Madras firm's offer formally on the file to higher authorities and that Government's displeasure should be conveyed to the officer. This has been done.

C. A. RAMAKRISHNAN,
*Director General (Food) and
Joint Secretary.*

APPENDIX XLIII

Notes from the Ministry of Health regarding fixation of responsibility for the unsatisfactory state of management in the Medical Store Depot, Delhi under Grant No. 126, Capital Outlay of the Ministry of Health, Note 7, Item (ii), Appropriations Accounts (Civil) 1953-54.

The large influx, as a result of partition, to India of displaced persons in and around Delhi created most complex and unprecedentedly complicated problems of public health. Medical supplies to relief camps and hospitals had to be arranged on an emergency basis and necessitated the setting up of a Medical Store Depot in Delhi. The Depot was established in the month of September, 1947 and continued till the 15th December, 1950. It may be stated here that there was acute shortage of medical supplies at that time and medical supplies had to be indented for from whatever source available such as Surplus Stores from Army, the American Hospitals and also from the Medical Store Depot. Some of these stores had already been partly used and were accepted to meet the emergent needs of relief camps and hospitals. There were also gifts of medicines supplied of various sorts from several sources. As such the newly established Medical Store Depot in Delhi acquired large quantities of stores of varying descriptions which were not necessarily of standard specifications. The stress of circumstances did not permit stringent check or inspection of chemical analysis nor did it allow planned and phased procurement of stores. The Depot was also short of adequately experienced staff and storage facilities as are found in a well-established store. It is against this background that we have to consider the working of the temporarily established Medical Store Depot in Delhi.

In 1950, the process of closing down most of the relief camps and hospitals started abruptly and all the medical stores in them were hastily packed and returned to the Medical Store Depot, Delhi. Large quantities of stores had been in use and showed signs of wear and tear. It may also be stated that the emergency hospitals were not working under ideal conditions.

Such were the conditions prevailing when the Depot was closed down in December, 1950 and orders were issued for the transfer of the stores to the Karnal Depot. The value of the stores moved was Rs. 3,55,397. It appears that the stores in the Delhi Depot were sent to Karnal without proper check or classification according to catalogue references nor were the drugs tested to ascertain their serviceability or otherwise.

The D.A.D.G. (M.S.), Medical Store Depot, Karnal started checking these stores soon after receipt and took on charge all serviceable P.V.M.S. items. Due to the pressure of work on the regular side

of the Depot, this checking proceeded rather slowly mainly due to difficulties in identifying stores, many of which did not conform to P.V.M.S. specifications. Regarding some of the items a first report giving details of stores and discrepancies noticed was submitted by the Depot to the Dte. G.H.S. in October, 1951. The Medical Store Depot, in April 1952, asked for two temporary clerks specially for this work. These clerks were sanctioned by Government in June, 1952. The Depot was sending list after list of stores checked up from time to time, sometimes modifying earlier lists. The Directorate was issuing to the Depot from time to time instructions regarding the proper accounting and disposal of stores. The loss statements from the Depot continued to be received till November, 1954. The D.G.H.S. approached the Government to sanction the write off of a loss of Rs. 87,355/8/- on the 18th February, 1955. The Deputy Assistant Director General in charge of the Karnal Depot apparently was unable to get the stores identified and checked for a considerable time.

The Officer-in-charge in the Directorate should have seen to it that these stores were checked in time and a proper report submitted to Government. Thus three points arise:—

- (i) The Officer-in-Charge of the Delhi Depot should have seen that only serviceable articles were despatched to Karnal.
- (ii) The Officer-in-Charge of the Karnal Depot should have checked the stores received by him within a reasonable time.
- (iii) The Officer in the Directorate should have seen that the Officer-in-Charge of the Karnal Depot duly checked the stores within a reasonable time and that he should have submitted a proper report to Government.

On receipt of the loss statement for Rs. 87,355/8/- on 18th February, 1955, the Ministry on 28th February, 1955 asked for the following information:—

- (i) Dates on which the various items of stores were purchased.
- (ii) Dates on which the stores were received by the Medical Store Depot, Karnal.
- (iii) Copy of instructions issued by the D.G.H.S. to the D.A.D.G., Medical Store Depot, Karnal in regard to investigation of losses.
- (iv) Report of the D.A.D.G., Medical Store Depot, Karnal.
- (v) Reasons for bringing the matter to the notice of the Ministry after four years of the closing of the Medical Store Depot, Delhi.
- (vi) Whether responsibility has been fixed on persons responsible for the loss.

The Directorate sent a report on 27th January, 1956 and promised to follow it up with a further report which was received on 11th March, 1957. The second report was also not final report. The

Dte. G.H.S. discussed the objections raised by the audit with the Deputy Accountant General, Punjab on 17th January, 1957 during his tour of Medical Store Depot, Karnal and it was decided by them that cases of losses involving Rs. 100 and more should be investigated. The present position is that explanations called for from the Officer-in-Charge of Delhi and Karnal Depots are under consideration of the D.G.H.S. The Dte. G.H.S. were asked by the Ministry to furnish the explanations of the Officer-in-Charge of Delhi and Karnal Depots on the 26th February, 1956. The Dte. informed on the 23rd August, 1956 that the explanations have been received and are under consideration. The Ministry on the 4th March, 1957 had also called for the explanation of the Officer concerned in the Directorate for the failure to get the stores checked by the Depot within a reasonable time and for the delay in bringing the matter relating to the loss caused by the transaction to the notice of the Government. As soon as the explanation with the comments of the D.G.H.S. are received, Government will pass necessary orders in consultation with the U.P.S.C. It is expected that the case will be finalised within a period of three months.* The Dte. G.H.S. were asked on 25th February, 1956 to furnish to the Ministry the explanations and all connected correspondence from the D.A.D.G.(M.S.) M.S. Depot, Karnal and the Officer-on-Special Duty [R.M.R. (St.)]. In spite of several D.O. reminders the Directorate General of Health Services did not furnish the requisite information till 21st October, 1957. The reasons for this delay on the part of the Dte. G.H.S. are being investigated.

2. (a) *A note indicating the present position of stores under the Ministry arrangements that have been made for their proper accounting and utilisation in time. In this connection facts and figures may be given.*

The Medical Store Organisation consists of 4 Depots at Bombay, Calcutta, Madras and Karnal. The Depot at Karnal started functioning as an issuing Depot in the year 1950.

These Depots supply medical and veterinary stores to civil hospitals, dispensaries, medical colleges, Railways and Veterinary institutions under the Civil Governments. They also supply stores to charitable institutions and other public bodies. All the States except West Bengal, Uttar Pradesh, Mysore and Kerala obtain their supplies from these Depots. The total number of indentors enrolled with these Depots is approximately 9,000 though there are certain casual indentors who obtain their supplies from the Depots in case of need with the approval of the Directorate General of Health Services. The value of stocks in the various Depots as on 31st March, 1957 was as follows:—

Medical Store Depot, Madras.	.. Rs. 29,16,664
Medical Store Depot, Calcutta.	.. Rs. 10,36,600
Medical Store Depot, Bombay.	.. Rs. 32,39,935
Medical Store Depot, Karnal.	.. Rs. 9,17,974

*The comments of the D.G.H.S. have been received recently and are under examination.

As against these stocks, the issues during the year 1956-57 were as follows:—

Medical Store Depot, Madras.	.. Rs. 55,70,316
Medical Store Depot, Calcutta.	.. Rs. 26,03,287
Medical Store Depot, Bombay.	.. Rs. 36,32,052
Medical Store Depot, Karnal.	.. Rs. 28,67,333

The Depots also hold the stocks of quinine on account of the Government of India reserves. Apart from the above stores, large quantities of supplies required for the various health schemes are received from abroad from international organisations. These consist of D.D.T., milk powder, stores and equipment for National Water Supply Scheme and motor Vehicles, valued at several crores of rupees. The Depots receive these articles and make arrangements for their storage and distribution. The value of such stores handled by the Depots during 1956-57 is as follows:—

Medical Store Depot, Calcutta	.. Rs. 2,54,40,346
Medical Store Depot, Bombay	.. Rs. 2,61,38,395
Medical Store Depot, Madras	.. Rs. 96,72,792

This information has been obtained by the D.G.H.S. from Medical Store Depots.

The Medical Store Depots at Bombay and Madras have a factory attached to each of them. The value of production of these two factories was Rs. 29.09 lakhs during 1956-57. These stores were distributed to the various Depots according to their requirements. In addition to normal functions of stocking and distributing medical stores to indentors, the Depots arrange purchase and supply of medical stores required in emergencies such as epidemics, floods, etc.

Accounting of Stores

All stores before they are taken on charge are inspected by the Depot authorities according to the terms and conditions specified in the Acceptance of Tenders. The accounting of these items commences from the time it enters the Depot and is carried out according to the provisions of Stores Accounting Instructions and the Medical Store Depot Manual.

Articles which on receipt are found to be conforming to all the conditions given in the Acceptance of Tenders are accepted and taken on charge in the Depot. The Receipt Section in the Depot which is responsible for such acceptance, transfers them in a special form M.S.D.-74 for storage and issue to the respective sections. The various sections post these articles in the bincards and take them on charge. The procedure as laid down in para. 62 of the Medical Store Depot Manual is followed in practice and reads as follows:—

“All stocks in the depot will be accounted for on Bin Cards (M.S.D. Form 80). There will be a separate Bin Card for each item. At the heading of the card will be

entered the name and Priced Vocabulary No. of the item. These cards will be maintained by Store Clerks under the supervision of Superintendent of the Section. On the Bin Cards will be posted daily all issues made from the Section and all receipts of stores into the Section. The average annual expenditure will be entered at the top of each card and running balance of the stocks in hand will be maintained. The Section Superintendent will be responsible that the actual stock in hand corresponds with the balance at all times." As present no priced stores ledgers are being maintained.

Provision is made in the Depots for the regular verification of stocks by Stock Verifiers who are directly responsible to the D.A.D.G. of the Medical Store Depot.

Care is taken for maintaining proper storage conditions required in respect of each item. Articles like Ether anaesthetic, Chloroform, Ferri ammonium citrate, rubber goods, etc., require cool dark conditions, such storage is provided in the depots. The rubber articles are "manipulated" for keeping them in good condition and instruments and appliances are greased to prevent rust.

An indent for supply of stores received from one of the institutions is first entered in a register and sent to different sections of the depot for compliance. The stock holder then takes out the items from his stocks after making necessary entries in the Bin Cards and the Issue Vouchers. The Bin Card balances are drawn at the end of the day's transactions. The articles for issue are then kept ready for collection by the assembly clerk who collects the articles from the various sections checking them with the necessary documents. The stores are then passed on to the packing section for finally packing them for despatch. Gate passes are made for each package and they are checked by the gate Clerk at the time they are taken out of the depot for despatch.

Utilisation

The requirements of the Depots are estimated annually. These estimates are based on the average issues made by the depot during the past three years or the last 12 months whichever is less. It is, therefore, anticipated that when supplies materialise they will be issued to the indentors in the normal course. But owing to the considerable delay, which in some cases is more than 2 years, supplies arranged by the D.G.S. & D. are not received in time to meet the demands of the indentors.

Since the central procuring agencies require 12 to 18 months for procuring supplies, estimates for the requirements of the depots have to be calculated more than 18 months in advance and it cannot be anticipated whether there will be any demand for the article when it materialises. Therefore accumulation of stocks in respect of certain items cannot be prevented as owing to the introduction of newer and more potent drugs the older ones are discarded by the medical profession and no demands are received for them. For

instance on account of the introduction of penicillin aluminium monostearate, the demand for neoparsphenamine has considerably fallen. Similarly Myocrisin is no longer used in the treatment of Tuberculosis as more effective medicines have been discovered to treat this disease.

Special precautions are taken in respect of the perishable stocks as laid down in the M.S.D. Manual para 64 which reads as follows:—

“Section Superintendent will periodically examine the stocks of perishable articles and ensure that they are kept fresh at the lowest possible level and particularly that the older stocks issued before the newer ones.”

When it is observed by the stock holder that certain article is not likely to be utilised by a due date, it is reported to the D.A.D.G. of the M.S. Depot. The particulars of the article in question are then circulated to the other depots and their needs are met by interdepot transfers. The institutions in the circle of supply of the depot holding the stocks are also intimated of the stocks and special demands are invited from them. This action is repeated periodically. The remaining stocks which cannot be issued in this manner are declared to the D.G.S. & D. for disposal after obtaining the sanction of the Government.

Knowledge in regard to the keeping qualities and other properties of certain drugs are by no means complete and hence deterioration even under proper conditions of storage within the prescribed life period of the drug cannot be avoided. In order to avoid accumulation of stocks of the perishable articles, purchases are made either by Rate Contracts or in instalments against A.T. arranged by the D.G.S. & D. The depots obtain their immediate requirements of stores which are freshly manufactured against the rate contract thus avoiding holding large stocks. Against the instalment system, stocks of a recent date of manufacture are accepted at each instalment which allows a larger period for the turnover of the stocks.

“(b) *What arrangements have been made for the disposal of surplus stores?*

The methods of disposal adopted by Medical Store Depots are as follows :—

- (1) The surpluses of one Depot are circulated to other Depots to meet their requirements wherever possible.
- (2) If the surpluses could not be liquidated by interdepot transfers, they are circulated to the Administrative Medical Officers inviting special demands.
- (3) If either of these two methods mentioned above fails and there is fear of loss due to deterioration if the stores are retained further, they are declared for disposal after taking the approval of the competent authority. This disposal is done through D.G.S. & D., if the value of the item is more than Rs. 1000, if serviceable and in other cases by public auction by the Depots themselves to the best advantage of the State.

Serviceable stores which are expected to remain potent for a long time are not disposed through D.G.S. & D. or public auction as only 20 per cent. of the value is, generally, realised through that disposal.

- (4) A Surplus Stores Committee under the chairmanship of the Deputy Director General of Health Services was formed in 1956 to examine the stocks of the Depots and to recommend disposal of surplus stocks where necessary. The report of the Surplus Stores Committee is still awaited.

2. (c) *What action has been taken or is proposed to be taken to remedy the defects, if any, in the general position of stores?*

(1) Prior to 1949 the provisioning of medical stores for the Medical Stores Depots was based on estimates received from Administrative Medical Officers of States. These were found undependable as the Administrative Medical Officers did not eventually take all the stores mentioned in their estimates. Hence the system now adopted is to base the provisioning on issues during the last three years or the past twelve months whichever is less.

(2) The purchases of stores for Medical Store Depots have to be done through the Directorate General of Supplies and Disposals to a large extent. There is considerable time lag (from 12 to 18 months in the case of indigenous stores and upto two years in the case of imported stores) between the date of placing indents and their materialisation. This necessitates the provisioning at least 18 months in advance. Meanwhile demands for some of the items go down as a result of various reasons, e.g., due to advent of newer and better drugs. The following methods have been adopted or proposed to be adopted to remedy this situation:-

- (a) Local purchase powers of D.A.D.G. in respect of medical stores have been increased from Rs. 500 to Rs. 2,000 per item. The proposal to increase it further to Rs. 10,000 per item is under consideration.
- (b) The question of obtaining on regional basis herbal raw material required by Medical Store Depot factories and certain commonly required surgical instruments and appliances is under the consideration of the D.G.S. & D.
- (c) The question of modernising the Medical Store Depot factories to increase their output has been examined by a special Committee consisting of the Deputy Director General of Health Services and the Drugs Controller. The report of the Committee is under consideration.

3. The Chief Cost Accounts Officer of the Ministry examined the working of the Depots and made various recommendations for their improvement. A statement containing those recommendations and the action taken thereon is attached.

V. K. B. PILLAI,
Secretary.

APPENDIX XLIV

MINISTRY OF HEALTH

Note from the Ministry of Health pursuant to action taken on para 31 of the Fifteenth Report regarding misposting in store accounts.

In the meeting held on the 2nd November, 1954, the Public Accounts Committee desired that—

- (i) "Action should be taken against the persons responsible for mispostings in the stores accounts of the Medical Stores Depot concerned, and for not having reconciled them even so long after the end of the war.
- (ii) The Committee also desired to know in due course the outcome of the Chief Cost Accounts Officer's report and the improvements that are sought to be effected in the existing set up of the depots."

2. The Sundries Section of the Medical Store Depot, Bombay stocks the following items:—

- (i) Laboratory equipment.
- (ii) Chemicals.
- (iii) Textiles (bandages and dressings)
- (iv) Other sundry items.

3. In May, 1941, the local Audit Officer for the first time reported to the D.A.D.G. (M.S.), M.S. Depot, Bombay, the existence of the following accounting errors in the bincards of the Sundries Section of the Depot:—

- "(1) Wrong additions and subtractions.
- (2) Wrong balances carried forward to next page.
- (3) Closing balance of one month differing from the opening balance of the next month.
- (4) Quantities taken on/or struck off charge in bincards differing from the quantities shown in the receipt voucher or issue voucher as the case may be.
- (5) Vouchers not posted in bincards at all in some cases.
- (6) Quantities struck off charge on bincards whereas issue vouchers did not show corresponding entries.
- (7) Issues not struck off charge on the correct bincards.
- (8) Double postings.
- (9) Issues posted in excess of the bincards balances.
- (10) Issues posted as receipts and *vice versa*."

4. While these discrepancies were investigated into by the D.A.D.G. (M.S.), M.S. Depot, Bombay, Major Duckworth, Officer Supervisor (Stores), Office of the late D.G.I.M.S. was deputed in March, 1942, to conduct a special stock-taking of the Sundries Section. He made a hurried stock-taking in March, 1942, and found certain discrepancies in stocks. On his report, a copy of extract of which is enclosed, the D.G.I.M.S. issued instructions, that the stocks as revealed in this special stock-taking should be taken as the opening balance on new bincards and also that action should be taken for reconciling discrepancies in old bincards. Later, during the routine stock verifications by the Depot stock verifiers, it was found that figures of stocks reported by Major Duckworth after his hurried stock-taking were in some places incorrect and the matter was brought to the notice of the D.G.I.M.S. on the 30th March, 1942. The D.G.I.M.S. ordered that the emergency stock-taking done by Major Duckworth should be taken as the working basis and that all discrepancies brought to light as a result of the regular stock verification should be reported to him every week. Action was taken according to the instructions of the D.G.I.M.S. and discrepancies were reconciled wherever possible.

5. Consequent on the transfer of the M.S. Depots to the Civil side on the 1st June, 1943, Shri N. C. Mallick, Assistant Secretary, Finance Department (O.B.) visited the Medical Store Depot, Bombay for test-check of civil stocks on the 9th July, 1943. He also noticed certain discrepancies in stocks which according to him were due to certain defects in the systems of stock verification and maintenance of bincards. The deficiencies in stocks were brought to his notice by the D.A.D.G. (M.S.) M.S. Depot, Bombay, and it was felt that these deficiencies were due mainly to mistakes in totalling, and the issue of one item for another closely resembling it. A copy of his report is enclosed. The D.G.H.S. after a thorough investigation reported that the discrepancies had occurred under circumstances beyond control and that no responsibility for the errors could be fixed on any person. He also confirmed that these discrepancies were not actual losses but were only accounting errors.

6. The then Department of E.H. & L. on 25th June, 1944 agreed with the D.G.I.M.S. that the apparent shortages did not represent actual losses but were the result of accounting errors; but they considered, that in view of the large amount involved, a further detailed investigation was necessary and that it should be conducted by an experienced Audit and Accounts Officer, who should be placed on Special Duty for a short period.

7. The C.M.A., Poona, was accordingly asked on the 2nd August, 1944, to arrange a special audit but he did not take any action in the matter till 1st November, 1944 when the Department of Finance were requested to depute a Special Audit Officer to investigate into the matter. The Finance Department felt that there was no point in having a special audit after a lapse of two years and that the investigation should be conducted by the Financial Officer in the D.G.H.S. It was not possible to have the matter investigated into

by the Financial Officer in the D.G.H.S. as no such Officer was appointed eventually. In November, 1945, when the Finance Department were again approached in the matter, they referred it to the Auditor General, India, on 16th January, 1946 to spare for a short period the services of an audit officer. The Auditor General, India, advised as follows:—

“An investigation into these deficits and excesses pertaining to a period about 2½ years ago, at this stage will involve a reconstruction of the store accounts and require some appreciable staff. Though the results of reconstruction will merely enable the administration to know the precise defects in accounting or other causes which have led to these shortages and excesses, it is doubtful whether the trouble taken will be commensurate with the results. Besides it will not be possible for the Auditor General to find the staff for a reconstruction of the accounts but he can undertake to check the accounts, if reconstructed, should that be desired of him. He, therefore considers that it will be better to start with a clean slate after adjusting these excesses and deficits and see that the accounts are properly maintained hereafter.”

8. The Ministry of Finance in their note dated 16th March, 1946 concurred in the view held by the Auditor General, India. The Health Department, thereupon, asked the D.G.I.M.S. on the 21st March, 1946 to take necessary action in the matter.

9. In view of the circumstances stated above, the position regarding the two points raised by the Public Accounts Committee is as follows:—

- (i) It has already been explained above, that the mispostings had occurred in circumstances beyond control, that the responsibility therefore could not be fixed on any person and that these had occurred due to errors in accounting and did not represent any actual loss. The discovery of the persons responsible for the mispostings and failure to reconcile the discrepancies could have been affected only if the further investigation which the E.H. & L. Deptt. wanted to make as early as June, 1944, November, 1944 and November, 1945 had been done. Investigations now, fourteen years since these discrepancies were noticed even if undertaken, are not likely to yield any results, more so as records pertaining to these transactions have since been weeded out, many of the persons who dealt with these accounts are no longer in service and the D.A.D.G. (M.S.) who was in charge of the Depot at that time, namely Lt. Col. Will, has since retired from service. It is, therefore, impossible to punish any person or persons for these mispostings or failure to reconcile the accounts, even if the responsibility is fixed.
- (ii) The Chief Cost Accounts Officer of the Ministry of Finance was deputed in 1953 to look into the working of

the Medical Store Organisation and to suggest improvements. He has submitted a part of his report which relates to the Headquarters of the Stores Organisation in the Directorate General of Health Services. A statement showing his recommendations and the action taken on them is attached.

V. K. B. PILLAI,
Secretary.

Extract from notes on tour to the Medical Store Depot, Bombay, of Captain Duckworth on 2nd March, 1942 to 7th March, 1942.

(1) STATISTICAL BRANCH.

(3) Arrangements were made for the stocktaking of actual stock in the Sundries Section of the Depot. In order to have this done quickly and efficiently, work in all of the Sections of the Depot with the exception of the Receipts and Packing Sections and Office was to be stopped for 48 hours from 9-30 A.M. on Monday, the 9th inst. The work has been suitably apportioned to responsible personnel such as Superintendents, Assistant Superintendents and Senior Stores Assistants with adequate assistance of Stores Clerks, compounders and packers to have this work completed in the allotted time. New bincards have been opened for all items of this Section which will show as opening balances the figures of 'actuals' taken in stock.

Reconciliation of figures in the old bincards with Receipts and Issue Vouchers is already in hand.

A copy of Memo. No. 15/3/43-SC., dated the 19th July, 1943 from the Assistant Director General, Indian Medical Service (Stores), Additional, New Delhi, to the D.A.D.G. (M.S.), Medical Store Depot, Bombay.

Extracts of paras 7 and 8 from the Inspection Notes dated 9th July, 1943 on your depot by Mr. Mallick, Asstt. Secy., F.D.O.B. are forwarded herewith for your remarks and a full explanation regarding the deficiencies amounting to Rs. 8,43,866/9/- and also the surpluses as soon as possible.

7. The test check has revealed certain defects of system which it seems necessary to remedy as early as possible.

Para 3(c) of the Store Depot Manual lays down that a continuous stocks verification will be carried out jointly by staff provided by the M.A.G. and by the D.A.D.G. (M.S.) but I learn that since about the start of the war the M.A.G. has withdrawn his staff and the only check now is by the depot's own stock verifiers. This is hardly satisfactory. The accounts are no doubt, audited by the local Audit Officer, but this audit does not include stock verification. During the course of this audit, the local Audit Officer noted several defects in the entries made in the bincards, etc.

Consequent on these remarks of the local Audit Officer, a physical check of stores was arranged by the D.A.D.G. which revealed serious deficiencies. I have got a statement prepared of these deficiencies and the aggregate value of the shortages works out to Rs. 8,43,866/9/-. Since it was thought that the deficiencies are due mainly to wrong entries, e.g., mistakes in totalling, issue of an item closely resembling (in specifications) another, I have requested Lt. Col. Will to have prepared also a statement of excesses occurring over the same period. Col. Kelavkar is also getting a note from the D.A.D.G. explaining the discrepancies and on receipt, this will have to be closely examined. For purposes of the financial settlement with the Military Finance Branch all these discrepancies should be taken into account so that Civil pay only for the actual stocks in the depots.

8. The deficiencies are serious enough but what is even more important is a thorough investigation into the cases leading to these discrepancies and the urgent necessity of removing the defects. Col. Gibbs in his report recommended the abrogation of the existing system of closing bincards on the 20th of a month and the D.G., I.M.S. has agreed to accept the recommendation. I am requesting Lt. Col. Kelavkar to arrange for the issue of early instructions in this behalf so that the bincards will, as in a business house, show the exact balance after every transaction and that there will be no space left between two entries (which practice is extremely undesirable). After this has been done and the D.A.D.G.'s report in regard to the deficiencies has been received some suitable arrangement for an actual stock verification in the depots through independent hands should be considered.

Sl. No.	Recommendations	Chief Cost Accounts Officer's recommendations	Action taken
1	2	3	4
1.	Reduction of Staff	(vide statement enclosed).	
2.	Revision of P. V. Rates for Centrally purchased articles—Decentralisation.	The fixation of P. V. rates should be done by the Depots instead of by the D.G.H.S. The rates should be calculated with reference not only to the cost of new stores acquired but also to the cost of existing stocks when the new stocks come in.	Recommendations accepted and action taken.
3.	Revision of P. V. Rates for items manufactured in the Madras and Bombay M.S.D., Factories.	At present the average rates for items manufactured at both the factories are fixed Centrally on the basis of arithmetic average of the unit rates, irrespective of the quantities manufactured. This is most unscientific and should be given up.	Do.

1	2	3	4
4.	Correspondence arising out of interdepot transfers of medical stores.	This correspondence in the Directorate can be reduced to the minimum by the Depots exchanging the list of stores available for transfers. There is no necessity to bring the Central Office into the picture at all, unless there are very special circumstances.	Recommendations accepted and action taken.
5.	Correspondence relating to rate contract items.	Once a rate contract is placed, the officer-in-charge of the depot should be given the limit of quantity he can purchase against the rate contract and he should be allowed to operate on the same. He can also be controlled by giving a fixed allotment for this purpose. The rate contract should specify the quantities that may be required for each depot also. There is no need as at present, to send intimations to the Depots from time to time about the quantities they can purchase.	Do.
6.	Correspondence relating to supply of Quinine Salts, Quinine held in the Government of India Reserve and Govt. Civil stocks.	This has to continue.	No action is necessary.
7.	Emergent indents regarding supply of anti-typhus and yellow fever vaccine from the U.K. and U.S.A.	This has to continue.	Do
8.	Declaring of surplus medical stores held at the M.S. Depots with the sanction of the competent financial authorities.	This work is essential. But with proper regulation of purchases of stores, the surpluses should be few and far between.	Do.
9.	Maintenance of periodical stock returns.	This is unnecessary and is only a waste of time and energy. Information which is now collected from the Depots should be discontinued.	Recommendation accepted and orders issued by DGHS.
10.	Printing of M. S. D. forms and labels Stock Return Forms required by the Stores Sections etc.	This is an essential work and would require to be done. (The extent to which the forms could be reduced in number will be discussed when dealing with the Depot themselves).	The CCAO's report dealing with M. S. Depots is awaited.

I	2	3	4
11. Progressing of demands, Maintenance of 'dues in' cards, checking of A/Ts, Supply Orders, U. K. Contracts and U. K. Quarterly Returns.	No Progressing demands is actually done in the Directorate. There is no need to maintain 'dues in' Cards in the Directorate.	Recommendation accepted and orders issued by DGHS.	
12. Procurement of N. I. V. Stores from abroad required by various indentors.	This is essential. It will also have to be considered whether Medical Stores Depots should at all undertake this responsibility unless it is considered that they should go into the items to be permanently supplied by the M. S. Depots.	The CCAO's report dealing with M. S. Depots is awaited.	
13. Local Purchases—Monthly Statements from M.S. Depots.	These serve no purpose and should be discontinued. If the intention is to control the expenditure against the budget allotments for local purchases, the requirements could be met by intimating to the DGHS the monthly and progressive expenditure against this head compared with the allotment. Detailed statements are unnecessary.	Recommendation accepted. Orders issued by the DGHS to the M.S. Depots.	
14. Local Purchases—Periodical Statements of items of local purchases where the purchase rates are in excess of 5/6th of the P.V. rates for these higher rates being sanctioned.	These are unnecessary. If the prescribed procedure for making the purchases have been followed and the local audit is satisfied about this, the matter must end there. If necessary the rules in this respect may be modified. The ADGHS in his periodical inspection could well deal with these further locally.	Do.	
15. Submission of labour bills for labour employed by M. S. Depots casually for the countersignature of the ADGHS.	This is unnecessary. The total expenditure on the employment of such labour can be controlled through budget allotments and watching progress of expenditure against such allotments. The ADGHS can, if necessary further scrutinise this expenditure during his periodical inspection of the Depots.	Do.	
16. Submission of expense vouchers by Depots for medicines issued to the dispensary for use of employees free of cost for countersignature by the ADGHS.	This is unnecessary. Each depot can be given an allotment fund, the issue of medicine could be controlled from month to month against such allotments.	Do.	

1	2	3	4
17.	Monthly reports of stock verification from the depots.	This is unnecessary. The stock verification register at the depots can be verified by the ADGHS during his periodical inspections.	The Recommendation accepted. Orders issued by the L.G. H.S. to the M.S. Depots.
18.	Employment statistics	These are unnecessary.	These are being continued at the instance of the Ministry of Labour.
19.	Reduction in the number of items to be stocked in order that the capital locked up may be reduced.	The DGHS should examine the matter further in consultation with the Drugs Controller (India). The question of deletion of many of the items from the PVMS should be examined by a qualified Committee with a view to determining which of the items can be deleted without prejudicing the interests of the consumers.	The matter is being examined by PVMS Committee. Necessary action will be taken on receipt of the Committee's report.

Serial No.	Category of Post	Staff before the recommendation of the Chief Cost Accounts Officer	Recommendation of the Chief Cost Accounts Officer	Reduction in staff effected
1	2	3	4	5
1.	A. D. G. H. S. (St.)	1	1	Nil
2.	Rate Officer	1	Nil	One
3.	Officer Supervisor	1	1	Nil
4.	Section Officer	2	1	Nil
5.	Assistants	15	11	Eight
6.	Clerks	14	4	Four
7.	Clerks (Typists)	8	8	Nil
		42	26	13

APPENDIX XLV

Note from the Ministry of Home Affairs pursuant to action taken on para. 17 of the Fifteenth Report regarding integration of former Princely States with the Union of India.

At its meeting held on the 23rd July, 1954, the Public Accounts Committee discussed paragraph 18-A of the Central (Civil) Audit Report, 1952—Part I regarding the results of audit of the transactions of the Governments of former Indian States prior to their integration or merger. Shri C. S. Venkatachar who as Secretary, Ministry of States, appeared before the Committee gave an account of the manner in which the integration of the States in India was brought about in a peaceful manner and agreed settlements were reached after negotiation with each individual Ruler. It will be recalled that he drew attention to the following points:—

- (1) The settlement made with the Rulers was of a bilateral nature. The main feature was that the Rulers were to surrender, whatever degree of sovereignty they had, their respective States. As a *quid pro quo*, certain concessions were given to them and were embodied in agreements or covenants. It was thus wholly a political arrangement, not one forced on them by purely administrative or financial considerations. An undertaking was embodied in the covenants and agreements with the Rulers that no enquiry would be made by or under the authority of the Government of India or the Government of the States as the case may be against anything done or omitted to be done by or on behalf of the Rulers during the period of their administration of their States.
- (2) The political changes that took place in the country were of a revolutionary character but it was not a case of "occupation" of a territory and dictating terms to the Ruler. The Princes had to be persuaded to surrender their powers and new Governments had to come into being. 552 States were thus integrated in less than 19 months. Negotiations had to be conducted within a very short space of time and could not, in the nature of things, be based on the prior acceptance of fixed rules or any prescribed financial procedure.
- (3) There was practically a void in regard to the Central Government's control over Indian States after the 15th August, 1947 and there was no machinery of the Central Government functioning in the States when the negotiations were conducted. In some of the States, there were experienced officers deputed by the Government of India working as Dewans or Administrators and did all they

could to maintain regularity in administration but they were subordinate to the Rulers who had the final say in any matter.

- (4) There was a large mass of cases to be settled and there was an element of bargaining. No meticulous rules could be observed in political negotiations of this kind which were conducted on a personal basis with a kind of give and take on both sides. What is described in the White Paper as "principals" followed in connection with the settlement merely sets out in a general form what has actually been achieved by personal negotiation across the table.
- (5) Another point to remember is that until the Ruler actually transferred their territory and sovereignty, the constitutional or legal position was that he retained all the powers in his own hands. The Government of India could not question his actions but had to content themselves with a general exhortation that they should not do certain things which the Government of India would later on find it difficult to defend. The Indian States as such actually disappeared only on the 26th January, 1950 when the Constitution came into force.
- (6) When the negotiations took place, the Government of India did take whatever steps were found feasible to safeguard the large interests of the successor authority. Where in the course of the negotiations it came to notice that certain things had been done which could not be defended, suitable action was taken and recoveries were made wherever possible.
- (7) With regard to assets and liabilities, it was not as if formal lists of the entire assets and liabilities were compiled and a division effected. Each Ruler was asked to file a list indicating what he considered as his private property as distinct from State property. This list was scrutinised in consultation with the State Governments and the Ruler or his representative and certain properties were demarcated as belonging to the Ruler, all the rest being treated as State property. The State Governments did what they could to utilise their administrative machinery to check the entries for example in regard to agricultural land, palaces, houses, etc. The main point is that an agreement was arrived at which was intended to be more or less final. The circumstances and events were such that it was not possible to make a full inventory of all State properties.

2. In summarising the position, Shri C. S. Venkatachar stated that during the period 1947—49 the over-riding and compelling events were political and not financial or administrative and that but for those events and decisions the Princes would not have abdicated so quickly.

3. With regard to the specific items included in the Central (Civil) Audit Report 1952, Shri Venkatachar observed that many of the transactions had an absolute political finality and Government could not go behind them. Even before the Audit Report was brought to the notice of the Ministry, the Ministry's representatives had objected, in the course of the negotiations with the Rulers, to certain items which as a matter of principle were considered to have been wrongly included as private property. Whatever influence could be exercised at that stage before finalising the list was brought to bear on them to irregular transactions.

4. In the course of his observations made before the Committee, the Comptroller and Auditor General also accepted the position that an examination of the past transactions of the former Indian States could not be taken up by the Central Public Accounts Committee on a purely legalistic basis. The Chairman of the Public Accounts Committee also ruled that the discussion should be confined to the financial aspect of the transactions and the general conclusion reached by the Committee was that the Ministry of States and the Comptroller and Auditor General should again review the cases reported in the Audit Report and see how far the Government of India would find it possible to use their good offices and persuade the Rulers to give up, for the benefit of their successor Governments, some of the assets which had already been recognised as their private property.

5. The irregularities, reported by the Comptroller and Auditor General in the Central (Civil) Audit Report 1952—Part I, have been classified by the Ministry of Home Affairs in consultation with the Comptroller and Auditor General. These transactions can be classified into the three broad categories, namely,

- (i) those which had been taken cognizance of by the Government of India before the private property lists were finally accepted;
- (ii) those which were not brought to notice at that time;
- (iii) those which would have been omitted from the Audit Report if the full facts had been available to audit.

6. The first category covers the audit objections to the following extent:—

- (i) Recurring expenditure.—Nil.
- (ii) Non-recurring expenditure.—Rs. 10,37,00,122.
- (iii) Other items—Workshop, Press, farm, Houses, 44 cars.

These transactions were known to the Government of India and the State Governments when they finalised the private property lists of the Rulers.

7. As pointed out by Shri Venkatachar before the Public Accounts Committee, whatever recoveries could possibly be insisted upon in the course of the negotiations with the Rulers, were specified in the final settlements. In other cases, the irregular withdrawals of funds by Rulers and other transactions which have

now been questioned were either satisfactorily explained or had to be condoned in return for the Rulers' agreement on other points. It was of course not possible to record in the proceedings all the claims and counter-claims preferred against or on behalf of the Rulers but it may be assumed that in the background in which the discussions took place, all possible influence was exercised by the representatives of the Central and State Governments to reach an over-all settlement with the Rulers which could, on the whole, be regarded as equitable to the State Governments and the Rulers concerned. It is, therefore, not possible to re-open any of the transactions which were known to the parties at the time of the settlements with the Rulers.

8. The second category of transactions, namely, those which were not brought to notice at the time of the private property settlements cover the transactions of the magnitude indicated below:—

(a) Recurring expenditure:	Rs. 5,31,173 plus annual revenue of 139 Santies of land.
(b) Non-recurring expenditures:	3,48,69,461-8
(c) Other items:	39 villages, 16008 bighas 12656.38 Acres 31 cars 5 bungalows

The following classes of transactions fall in this category:—

(i) Grant of lands, Jagirs and State properties by the Rulers to third parties prior to or in anticipation of merger.

The benefit of these grants did not go to the Rulers directly or indirectly. These could not therefore be taken into account in the private property settlements. It will be difficult to interfere with the grants at this stage in view of the judgment given by the Supreme Court of India in a recent case of Virendra Singh and two others of Charkhari and Sarila *versus* the State of Uttar Pradesh the effect of which is that the grants of Jagirs or lands made by Rulers cannot now be revoked except by legislation. The ruling given by the Supreme Court thus precludes the cancellation by executive order of the Jagirs, lands and other State properties granted by the Rulers to third parties.

(ii) Write off of loans and advances due to the State.

In these cases also the orders of the Rulers did not directly or indirectly benefit the Rulers themselves; the transactions cannot therefore be justifiably be revoked at this stage. In a number of cases, the Indian States had large amounts outstanding in their books for a number of years which would have had to be written off in the normal course. It is well known for instance that the accounting procedure in Indian States in regard to food purchases and civil supplies during the emergency period was defective and that in most of the States substantial advances remained unadjusted or proved irrecoverable in the conditions then prevailing.

(iii) Remissions etc. of State dues.

It was customary in the former Indian States to order remission on special occasions e.g. installation to the throne, birth of a child and other connected functions to which the Rulers attached great importance. These remissions cannot in the conditions then prevailing be termed as an irregular act on the part of the Rulers.

The transactions grouped under (i), (ii) and (iii) were acts of State authorised by the Rulers and cannot accordingly be taken into account in settlements relating to the private properties of the Rulers concerned.

(iv) Civil List overdrawn and expenditure debitable to the Civil List Reserve Fund met out of the State Funds.

Before handing over the administration most Rulers had full power to utilise State funds for their own benefit; there were also occasions when Rulers diverted a part of their personal accumulations for the benefit of their subjects to tide over scarcity or other difficult conditions. It has already been explained that in cases of overdrawals which had come to notice at the time of the private property settlements, endeavours were made to persuade the Rulers to return the whole or a part of the amounts appropriated by them in the period immediately preceding the integration of the respective States. The cases which have now been reported by Audit but which were not known at the time of the private property settlement have since been reviewed. Considering all the aspects of the case, however, this Ministry have come to the conclusion that no fruitful results will accrue by any attempt to re-open at this stage the overall settlements which were intended to be final.

9. The third category of objections included in the Audit Report relates to transactions in regard to which audit was not in possession of up-to-date information. For instance, certain transactions have been reported which have already been set aside by the Orissa Government. There are also cases of payment of moneys by the Rulers for certain charitable institutions which have either vested in the State Governments or for which regular Trust Deeds are in the process of being finalised; these transactions cannot be considered to be irregular. Yet another set of transactions covers certain securities etc. the whereabouts of which could not be explained at the time of audit.

The property covered by the audit objections falling under this category is as follows:—

Recurring	2,26,400
Non-recurring	1,03,50,329
Other items	2850.32 Acres. Dak bungalows, Press and Power House.

It may also be mentioned that a few items involving an expenditure in all of about seven lakhs of rupees have appeared twice over in the Audit Report.

10. The Comptroller and Auditor General has subsequently reported certain other transactions which had been considered to be irregular. These transactions have been analysed into the three broad categories mentioned in para 5 above as under:—

Category (i) Those which had been taken cognizance of by the Government of India before the private property lists were finally accepted.

(a) Recurring Expenditure	Rs. 9,337, P.A.	
(b) Non-recurring expenditure	Rs. 6,11,88,151	
(c) Other items	Car	1
	Acres	19,119
	Villages	63

Category (ii) Those which were not brought to notice at that time.

(a) Recurring expenditure	Nil	
(b) Non-recurring expenditure	Rs. 2,39,28,449.	
(c) Other items	Cars	3
	Villages	39
	Bighas	712
	Agriculture farm, Juice Factory, Sugar Mandi and balance of Patdi villages.	

Category (iii) Those which would have been omitted from the Audit Report if the full facts had been available to audit.

(a) Recurring expenditure	Nil
(b) Non-recurring expenditure	Rs. 1,21,16,128.
(c) Other items	Acres 15.

11. In view of what is stated above regarding the nature of the transactions under the three categories, this Ministry do not consider that it will be possible to recover any part of the amounts involved in these cases from the Rulers concerned.

12. The above note has been prepared in consultation with the Comptroller and Auditor General *vide* Shri P. C. Pandhi's demi-official letter No. 1581-Rep/26-States 54, dated November 19, 1955.

Sd./- V. VISWANATHAN,
Joint Secretary.

APPENDIX XLVI

Note from the Ministry of Information and Broadcasting explaining the reasons for the variations in circulation of A.I.R. journals in various parts of the country under Grant No. 60-Broadcasting, Pages 18-20/21-23, Appropriation Accounts (Civil) 1953-54/1954-55.

A statement (V) giving the figures of circulation of the seven Radio journals since 1952 to 1957 is enclosed. It will be seen from the statement that there has been regular decrease in the circulation of *Vanoli* and *Vani* during the years 1953, 1954 and 1955 and a steady rise during subsequent years.

2. Reasons for the steady decrease in the circulation of all AIR journals were examined by the Estimates Committee in Chapter XII of their 12th report (1954-55) on AIR and certain suggestions were made for increasing their circulation. Their recommendations have been examined in detail and implemented as far as possible as shown in the statement No. VI showing action taken on the Estimate Committee's report. There has been appreciable increases in the circulation figures from 1956 onwards except in the case of *Indian Listener*, *Awaz* and *Sarang*. Every effort is, however, being made to push up the sale of these journals also by intensive publicity and reducing the price. The price of *Awaz* and *Sarang* has been reduced with effect from the issue dated 7th January, 1958 from annas 5 per copy to 25 nP. per copy. Control of the Office of *Indian Listener*, *Awaz* and *Sarang* has been transferred from the Directorate General, All India Radio to the Publications Division with effect from April 1955 with a view to improving the get up and circulation of journals (i.e. the *Akashvani*, the *Awaz* and the *Sarang*) as the Publications Division is a specialised Department for such work.

3. All the journals have been combined for the purpose of selling space for advertisements under the Directorate of Advertising and Visual Publicity with a view to increasing the revenue from advertisements.

4. Information about individual journals is given below:—

(i) *Akashvani* (Weekly):—Better type of printing paper is being used with effect from the Radio Week Issue 1958 with the result that the quality of printing and get up etc., have improved. Publicity is also being given regarding this journal with a view to augmenting the circulation.

(ii) *Awaz* (Fortnightly):—There has been steady decrease in circulation since 1953. This is mainly due to the fact that the number of persons knowing Urdu has decreased after partition.

The price of this journal has been reduced as mentioned in the previous para. with a view to increase the circulation.

- (iii) *Sarang* (Fortnightly):—The price of this journal has been reduced as already mentioned in para 2 above and this is expected to increase the circulation.
- (iv) *Betar Jagat* (Fortnightly):—The circulation is rising steadily.
- (v) *Vanoli* (Fortnightly):—The circulation is rising steadily since 1955 although it is much below the level of 1952. The increase since 1955 may be attributed to the installation of 100 kw transmitter at Madras resulting in wider coverage of Tamil broadcasts with consequential rise in the circulation of the journal.
- (vi) *Vani* (Fortnightly):—The circulation is slowly rising from 1955 although it is slightly below the 1952 level. The rise may be attributed to the installation of a more powerful transmitter at Vijayawada resulting in wider coverage of Telugu broadcasts with consequential rise in circulation.
- (vii) *Nabhovani* (Fortnightly):—The circulation in 1957 was the highest since 1952. The increase in circulation has been gradual and steady.

R. K. RAMADHYANI,

Secretary

STATEMENT V

Serial No.	Name of Journal	Language in which printed	Place of Issue	Figures of circulation in					
				March 1952	March 1953	March 1954	March 1955	March 1956	March 1957
1.	Akashvani (formerly Indian Listener)	English	Delhi	11,895	8,894	7,537	6,998	6,558	5,435
2.	Awaz	Urdu	Delhi	3,282	2,443	1,617	1,498	1,512	1,500
3.	Sarang	Hindi	Delhi	7,940	6,224	4,697	4,282	3,835	3,400
4.	Betar Jagat	Bengali	Calcutta	23,499	23,785	24,100	28,082	32,286	42,500
5.	Vanoli	Tamil	Madras	31,100	27,943	24,256	23,665	24,231	27,600
6.	Vani	Telugu	Madras	8,070	7,861	6,266	5,884	5,943	7,300
7.	Nabhovani	Gujerati	Ahmedabad	1,764	1,083	625	1,014	2,144	2,300

STATEMENT VI

Statement showing the recommendations made in Estimate Committee's 12th Report (1954-55) on Ministry of Information and Broadcasting (AIR) and latest position thereof

Sl. No.	Para No.	Summary of conclusions/ recommendations	Latest position (Action taken by Directorate)
61.	130	The billing of programmes in the programme Journals leaves much to be desired. The journals should clearly indicate the exact programme as exhaustively as is possible within the limitations of space. Wherever possible the details of the compositions being sung should be given.	This recommendation has already been implemented and the new set up of the <i>Indian Listener</i> embodies many new features, as for example, booking of important programmes, giving the first lines of songs, indication of the rages, a diary of selected programmes under the heading "Week Listening". Recommendation No. 63 concerning photographs are as far as possible given on or near the page where the programme figures. The scope of photographs has been extended to illustrate the topics of the programmes. Pen and ink sketches will also be introduced. Preparatory steps have been taken for giving texts of songs with notation especially of important classical songs and light music productions of AIR which figure in the Journal for the week. It is proposed to give these texts in the form of loose sheets so that they can be permanently preserved in a Music Folio.
62.	131	No rational policy appears to govern the publication of pictures in the journals. A photograph, if published, must be with the sole purpose of enabling a listener to visualise the broadcaster while listening to his programmes or to highlight the programme of the individual whose photograph is published. Important programmes should be highlighted by printing them in thicker types of publishing them separately in a box at the end of each day's programmes.	
63.	132	Certain programme journals publish the text of certain songs broadcast during the course of the week. Journals which do not publish such songs will be well advised to follow this example. The text of the light songs produced by AIR may also be published in the journals. This will popularise AIR's light music.	The question of improving the <i>Indian Listener</i> and <i>Sarang</i> is under consideration of D.P.D. to whom the subject has been transferred.
64.	133	The publication of articles in the programme journals does not contribute much to the sale of the journals. The main purpose of the journals is to provide information about forthcoming programmes and it would be better for the journals to strictly confine their contents to the programmes.	Although the main purpose of the journals is to provide information about forthcoming programmes, it has never been the practice of radio journals anywhere to exclude reading material altogether and that would considerably detract from their appeal. Full texts of talks etc. need not be given in the journals which are being printed separately through quarterly journals like <i>Prasarika</i> or "AIR Selections" the quality of which is gradually being improved. It is proposed to give in the programme journals selected reading material in addition to editorial notes, etc. on topics connected with radio and listening.

Sl. No.	Para No.	Summary of conclusions/ recommendations	Latest position (Action taken by Directorate)
65	134	Such of the journals as can be printed in the Printing Press of the Publications Division should be printed there. This will considerably reduce the expenditure on printing charges. Every avenue should be explored to reduce the cost of production of these journals and increase their revenue through more advertisements and increased circulation.	The present capacity of the Government printing press assigned to the Publications Division does not permit their undertaking the work of Radio journals. When the new full-fledged unit at Faridabad is placed at the disposal of the Ministry, the printing of the journals which now issue from Delhi will be done in that unit. A separate space selling unit has already been set up under the D.A.V.P. for securing more advertisements for the Radio journals and the results so far have been quite encouraging.
66	135	Considering the poor circulation of the journals <i>Awaz</i> (Urdu) & <i>Nabhovani</i> (Gujerati) the losses incurred on them are unjustified. In case it is not possible to make the two journals self supporting, their publication should be discontinued. Publicity of Programmes may be done through the local Urdu and Gujarati newspapers who may be supplied regularly with the text of the programme.	It is necessary to consider the total circulation of all journals put together. That circulation amounts to 75,075 copies. The total number of radio licences in the country is 10,29,816 and this works to a percentage of 7.29 which is not a disappointing percentage considering the extent of literacy and the reading habits of the people in this country. The total number of copies of radio journal is sold, namely 75,075 also compares favourably with the total number of 25 lakhs copies of daily newspaper sold in the country.
67	136	The sales of the programme journals should be pushed up by intensive publicity both visual and over the microphone.	If a comparative view of similar figures in Great Britain is taken, it would seem that the position is not so discouraging.
68	137	There is a good market for the programme journals and with greater attention on the part of Government they can all be made self-supporting.	Precisely because reading habits are no similar in different linguistic groups of the country, it is all the more essential to consider the circulation of journals together as one group. It is also necessary to add to the volume of circulation the copies of Radio Publications like <i>AIR Selections</i> , <i>Prasarika</i> and other pamphlets which are based on material broadcast by AIR. There are also other reasons of publicity for continuing the publication of the journal, <i>Awaz</i> in Urdu. It is, therefore, not proposed to discontinue the Publications of journals which are well established. Nevertheless, every effort is being made as suggested by the Committee to pay greater attention to the question of making the journals self supporting and for that purpose, not only better production standards of the journals but also a larger advertising revenue is being aimed at. The Committee's suggestion that the sales of the journals should be pushed up by intensive publicity has been taken up for implementation.

APPENDIX XLVII

Note from the Ministry of Irrigation and Power pursuant to action taken on para 52 of the Sixteenth Report regarding administrative audit system in the multi-purpose river valley projects and Ministries.

1. In pursuance of the undertaking given in the Ministry of Irrigation and Power note dated the 30th August, 1954 and the direction contained in para 115 of the Fifteenth Report of the Public Accounts Committee, the Ministry of Irrigation and Power have examined the question of introduction of the Administrative Audit System in the various multi-purpose river valley projects in consultation with the project authorities and the views of Government are explained in the succeeding paragraphs.

2. The Administrative Audit System encourages the setting up of an organisation in each multi-purpose project, independent of the project executive, for carrying out an internal audit of the project transactions. This organisation will be in addition to the normal accounting and auditing organisations under the control of the Comptroller and Auditor General. The system is intended to ensure an effective control on costs at every stage of construction of the project. According to the proposals drawn up by the Chief Engineer, C.P.W.D., Ministry of Works, Housing and Supply, who had accepted the original recommendation of the Public Accounts Committee, the functions of the internal audit organisation will be briefly:

- (i) Scrutiny of contracts entered into by the executive formations from a technical point of view, with particular reference to the rates accepted;
- (ii) Examination of the administration of contracts paying special attention to unauthorised and/or uneconomical deviations, issue of stores and machinery to contractors, and observance of time for completion stipulated in the contract for various items of work and phases;
- (iii) Site check of work to ensure that materials and workmanship provided by the contractor are with the contract specifications;
- (iv) Technical examination of the contractor's bills, after payment to ensure that payment is made only for the actual work carried out in accordance with the conditions of the contract; stores issued to the contractors are only those authorised in the contract and are properly accounted for, etc.; and
- (v) To check muster rolls and C.P. bills for departmentally employed labour, the progress of work done by the

labour and to see that departmental labour is not employed in excess of requirements or on work which would more economically be executed by contract.

The organisations in river valley projects will have such other similar functions as to suit the nature of work done in these projects.

3. The comments of the Central Water and Power Commission and the project authorities and State Governments addressed by this Ministry are summarised below:

Central Water and Power Commission.—The creation of an internal audit organisation will mean unnecessary extra expenditure. Confusion will be caused in the accounts and payments will be delayed by too many people doing the same job of auditing. Further, the persons to be selected for the organisation shall have to be men of high integrity and experience in their profession and there is at present an acute shortage of engineering personnel especially of the type required to man the organisation.

Damodar Valley Corporation.—The main point for consideration is whether in the present set-up with its foreign Chief Engineer and a quality control team under Harza Engineering Co. and at this late stage of the works, it is really feasible or necessary. On a balance of considerations, the Corporation sees no objection to trying the system in a limited way in the Panchet Hill Project.

Bhakra Nangal Project.—The Punjab Government do not consider it necessary to introduce this system in the Bhakra Nangal Project for the following reasons:

- (a) The works at Nangal which were in an advanced stage of construction have since been completed;
- (b) As regards Bhakra Dam, there is already an Inspection Directorate and this organisation is responsible to see that the work is done according to specifications and designs by the Construction Directorate. The designs are prepared by the Bhakra Dam Designs Directorate which sees that the work is done according to the sanctioned plans;
- (c) The entire execution at Bhakra is carried out departmentally and not through any contractor who may like to make money by ignoring specifications; and
- (d) The introduction of this system would increase the cost without any corresponding benefit.

Tungabhadra Project (Board Area).—The Board considers that the introduction of the administrative audit system on this project is unnecessary at this stage when it has almost been completed.

Koyna Project.—The State Government do not consider it necessary to introduce the system in the river valley projects which are being executed in the State, so long as works are being carried

out through the agency of the contractors. The question of introducing this system will be considered if and when any large river valley project is undertaken by the Bombay P.W.D. for departmental execution.

Kosi Project.—In view of the great dearth of experienced staff and other complications involved, the Kosi Control Board considers that the introduction of the system in the Kosi Project is not feasible.

Hirakud Dam Project.—At Hirakud, sufficient safeguards relating to financial control exist. The view of the Chief Engineer is that the works on the project are concentrated within a region of manageable area under the direct supervision of the Chief Engineer, that sufficient checks regarding financial control already exist and that the proposed system is likely to lead to delay in the execution of work. The first stage of the project is nearing completion.

Rihand Project.—The State authorities have reported that there is already an organisation going by the name of 'Design and Test Directorate' whose functions cover all that the 'Administrative Audit' is intended to carry out. The functions of the Administrative Audit System are already provided for in the organisational set-up of the Department and, where the construction of a river valley project is undertaken by a long established engineering department of the State Government, there is no need to have an additional arrangement for 'Administrative Audit'.

Nagarjunasagar Project.—The Control Board considers that as the project is in the initial stages the question of introducing the system may be postponed till after the tempo of work had increased sufficiently. In the meantime, the Board agreed that the Chief Engineer could introduce such measures of supervision as he considered necessary purely as an internal arrangement.

Chambal Project.—The Government of Madhya Bharat (since integrated with Madhya Pradesh) and the Government of Rajasthan have no objection to the introduction of the system in the Chambal Project. The Chambal Control Board desired to know the reactions of the State Governments concerned and the position in regard to the introduction of the system in other projects. The Board's comments are awaited.

It will be seen from the above that Madhya Bharat (since integrated with Madhya Pradesh) and the D.V.C. to a limited extent are agreeable to introducing the proposed system and that the Nagarjunasagar project authorities are not against it. All the others, namely, Kosi, Rihand, Tungabhadra, etc. have either expressed themselves against the proposal or do not find it necessary.

5. According to the scheme proposed by the Chief Engineer, C.P.W.D., the main functions of the "Technical Examiner's Organisation" will be as indicated in para 2 above. The functions of the "Surveyor of Works" Organization are as follows:—

- (i) Preparation of preliminary estimates for all works for which administrative approval is required;

- (ii) Preparation of detailed estimates for all works costing above Rs. 40,000. In respect of works costing Rs. 40,000 and below, though detailed estimates will be prepared by the Executive Engineer, some check shall be exercised by the Surveyor of Works Organisation that the procedure followed in the Executive Engineer's office both with regard to preparation of estimates and the drawing up of agreements etc. is correct;
- (iii) Preparation of N.I.T. papers and contract documents in respect of works costing above Rs. 40,000. In respect of agreements within A.C.E.'s power of sanction the scrutiny shall be done in consultation with F.A. to A.C.Es. They will also scrutinize final agreements when received from the lower formations.
- (iv) Checking of the additional items pertaining to works which are beyond the powers of the Executive Engineers;
- (v) Planning and designing of important works;
- (vi) Preparation and examination of schedule of rates and specifications;
- (vii) Dealing with legal notices, and suits filed in courts arising out of disputes pertaining to contracts. Advise the executive formations at all levels on arbitration cases; and
- (viii) Fixing and revision of minimum fair wages.

The main functions of the Chief Technical Examiner's 'Cell' are:—

- (i) Inspection of important works after completion as also during progress for ensuring (a) quality to specifications, (b) execution to schedule, and (c) no undue deviations during construction;
- (ii) Inspection of works carried out departmentally for ensuring no excess use of materials and labour;
- (iii) Checking a percentage of concluded contracts for ensuring reasonable rates and no ambiguity in conditions, description and specifications with particular reference to negotiated contracts;
- (iv) Checking a percentage of bills after payment with reference to measurement books as also check on measurements and quality of works executed; and
- (v) Generally to help the Ministry of Works, Housing and Supply, Audit and A.G.C.R. on technical points in audit objections, draft paras, bills, contracts, etc.

The 'Surveyor of Works' organisation has been set up under the Chief Engineer, C.P.W.D. and the Chief Technical Examiner's 'Cell' in the Ministry of Works, Housing and Supply.

6. In respect of river valley projects, the recommendation is that there should be one organization for the Administrative Audit System. The functions of such an organization will as indicated earlier be more or less on the lines of those of the "Technical Examiner's Organization". It has been pointed out in this Ministry's note dated the 30th August, 1954, that the States cannot be compelled to adopt the new system but that it was open to the Central Government provided they were satisfied that the existing arrangements were inadequate, to commend for the consideration of the States the adoption of such a system. Further one important development has to be taken into consideration in this connection, namely, the introduction of cost control in the multi-purpose projects. The Estimates Committee of Parliament in their Fifth Report had recommended that a cost accounting organisation for each project should be set up as soon as a scheme was sanctioned/that it should act as a "searchlight", point out the "bacilli of waste" and the direction in which improvement was needed. The authorities of the multi-purpose projects were requested to set up cost accounting cells. The cost accounting procedure has been in force on the D.V.C. and Hirakud projects. A cell was started in Bhakra towards the end of 1955. At Chambal, the necessary staff has been sanctioned and further action is being taken. At Kosi, the accounts organisation is being formed. A beginning has been made at the Nagarjuna-sagar and Rihand projects. Koyna is only in the preliminary stage of construction and cost accounting cells are expected to be opened at the appropriate time. A cost control unit is also being set up in the C.W.P.C. in order to co-ordinate the work in the projects, watch the trend of costs of river valley projects, give directions to the project units, where necessary, etc. One Cost Engineer and one Cost Accountant are being recruited for the purpose.

7. At the same time, with a view to evolving a uniform cost accounting organization, the Rates and Costs Committee set up by this Ministry, were asked to go into the question and make suitable recommendations. This Committee have defined the functions of the cost control organization as follows:—

"The cost section is to function as an independent fact-collecting agency and compiling data for presentation to executives in a form most serviceable to them. Its major objectives are (i) to furnish the maximum amount of information from both operation and cost angles, (ii) to present in the most practical way the facts that reveal actual performances and to aid in the attainment of high standards of efficiency and, therefore, of realisation of maximum economy, and (iii) to aid in determining operational policies. In short, cost accounting would aim at accounts for operators and project managers instead of accounts for accountants. It is thus **more** an adjunct to Engineering Departments particularly of estimating and planning than to the general accounting department."

The Committee have also laid down the following as essential conditions for an efficient costing system:

- (i) that arrangements and designing of the cost accounting system should be suited to the organizational set-up and the methods of construction on a particular project, at all levels of management down to the smallest field of activity;
- (ii) that the costing organization should be conversant with technical aspects of the work to detect flaws in the original data and to offer constructive criticism to improve efficiency;
- (iii) that promptitude and utmost regularity in the supply of data to the organization should be ensured; and
- (iv) that where the availability of actual data is not possible in time, best approximation should be made and subsequently corrected.

The Committee have also recommended that the cost organization should be headed by a competent cost engineer assisted by trained staff and that he should be able to comment on (i) the operations which are costing more than the estimates, (ii) the possible revenues of saving, and (iii) the ultimate cost of the project. This organization, it is envisaged, should be independent of the executive organization but be responsible to the Chief Engineer of the project.

8. Further, the high-level committee on Plan Projects set up by the Government have appointed a team to undertake a detailed study of the Chambal and Lakkhawali projects. The terms of reference of the Team, which includes top ranking engineers in the country, are as follows:—

- (1) To study all aspects of the Project having a bearing on economy and efficiency with special reference to:
 - (a) Utilisation of trained personnel and materials;
 - (b) Utilisation of machinery and equipment;
 - (c) Construction Plant lay-out;
 - (d) Adequacy of original estimates and designs as evidenced from actual construction of the project;
 - (e) Phasing of construction with a view to studying whether
 - (i) timely utilisation of benefits accruing from the Project has been ensured;
 - (ii) it is possible to accelerate accrual of benefits;
 - (iii) benefits could be increased by rephasing the project at this stage;
 - (f) Sufficiency of investigations conducted at the planning stage with a view to the formulation of Project Estimates;
 - (g) The effect of the above study on the financial results of the Project, if any.

(2) Generally to assess the progress made in construction, the reasons for shortfall, if any, and to suggest measures for improvements in the future.

(3) To examine the possibility of decreasing dependence upon imported materials and equipment required for the project.

(4) To examine whether adequate steps have been taken by the authorities concerned for fixing and realising the contemplated water rates, betterment fees and/or any other rates, cesses or taxes.

(5) Any other recommendation that the team may like to make in order to ensure economy and efficiency in the construction of the Project.

It will be observed that the above terms cover some of the important functions of the proposed Administrative System. The recommendations of the Team in the matter of efficiency and economy will be implemented not only in the particular projects investigated but also in other major projects in the country.

9. The Government of India have examined the matter carefully and in the light of the position explained above, come to the conclusion that the purpose for which the Administrative Audit System has been recommended can be met by amplifying the functions of the cost control organization in the projects in such a manner as to provide for spot check of quality and quantity of work and scrutiny of contracts from the technical point of view. In other words, the duties of the Technical Examiner envisaged under the Administrative Audit System and those of the Cost Engineer will be combined in one and the same officer. This arrangement will make for economy without, in any way, affecting the implementation of the essential principles underlying the Administrative Audit System. As indicated in para 6 above, the system modified on the lines indicated above will be commended to the D.V.C., Tungabhadra Board and the State Governments through the respective Control Boards for adoption.

T. SIVSANKAR,
Secretary.

APPENDIX XLVIII

Note from the Ministry of Labour and Employment regarding disciplinary action against the Treasury Officer under page 27, Grant No. 68—Employment Exchanges and Resettlement, Note 6—Drawal of a forged bill, Appropriation Accounts (Civil) 1954-55.

Disciplinary action against Treasury Officer:—The Ministry should draw the attention of the West Bengal Government to the fact that the Public Accounts Committee were very much distressed to note that final decision in the case had not been taken even after a lapse of 8 years and the reaction of that Government should be communicated to the Committee.

The facts of the case are as follows :—

The following case of defalcation came to the notice of this Ministry in April 1950.

A contingent bill Rs. 500/- purported to have been drawn by a Sub-Regional Employment Officer, Burdwan and made payable to a messenger, was paid by the Bank Sub-Treasury, Asansol in October, 1949. At the time of the verification of the monthly expenditure of the Regional Directorate of Resettlement and Employment, it was detected that no such expenditure was incurred by the Sub-Regional Employment Exchange. Police investigation proved ineffectual. The handwriting expert was of the opinion that the signatures of the Sub-Regional Employment Officer on the said bill were forged. There was no evidence that the production of a separate letter of authority other than the endorsement on the bill, as required under the Treasury rules, was insisted upon by the Sub-Treasury Officer. In the absence of any contributory negligence on the part of the Employment Exchange the Accountant General held that the Sub-Treasury Officer was responsible for (i) non-detection of the forged signature on the bill and (ii) non-observance of the rules. On 7th January, 1953, the Accountant General, requested the Government of West Bengal, Finance Department, to fix the responsibility of the Sub-Treasury and the Bank and for making arrangements for the recovery of the loss from the person or persons who made the payment. Since then this Ministry have been reminding the State Government from time to time with a view to finalising the case.

Under Rule 352 of the Treasury Rules, West Bengal, Volume I which corresponds to Rule 430 of the Central Treasury Rules, the Bank can disburse payment of claims when presented through messenger who can be identified, provided the Bank is previously in possession of specimen of payee's signature. In this case, no specimen signatures of the Sub-Regional Employment Officer

were kept in the Bank and the payment was made on the authority of the pay order recorded on the bill by the Sub-Treasury Officer. The Solicitors of the Imperial (now State) Bank (which functioned as agent of the Reserve Bank of India and actually made the payment) contended on 8th October, 1953, that the provisions of S.R. 352 of the Treasury Rules, West Bengal, Vol. I were not mandatory and that the Rule was not supported by any law. This view of the Solicitors was supported by the Reserve Bank of India and also by the Legal Remembrancer of the Government of West Bengal on 16th February, 1955. As in a similar case which occurred in a treasury of another State, that State Government had held the view that they were entitled to recover the amount from the Bank through whose negligence the loss was caused, the Comptroller and Auditor General of India desired that the Govt. of India should consider the matter further before acquiescing with the contention of the Bank. The Comptroller and Auditor General's office reference to the Government of India, Ministry of Finance, was made on 4th January, 1956. The decision of Government is still awaited.

The State Government have stated that the question of responsibility of the Bank and the apportionment of the loss consequent thereon would be settled when a decision is reached on the question of interpretation of the above rule.

Attention of the Government of West Bengal has been drawn to the fact that the Public Accounts Committee were very much distressed to note that the final decision in the case has not been taken even after a lapse of 8 years. The reaction of the State Government is indicated in the para above.

The Note has been seen by Audit.

21st March, 1958.

S. ABDUL QADIR,
Director-General of Resettlement and
Employment and Joint Secretary.

APPENDIX XLIX

Note from the Ministry of Labour and Employment regarding misappropriation of Rs. 4,211 by the Stores Clerk of an Industrial Training Institute under page 27, Note 9—Misappropriation of Government Money and Stores, Appropriation Accounts (Civil) 1954-55.

Misappropriation of Rs. 4,211/- by the Stores Clerk of an Industrial Training Institute

- (i) When the case against the Deputy Manager came to the notice of the Ministry, was that officer suspended from service?
- (ii) What has been the final conclusion of the disciplinary proceedings taken against the Deputy Manager?

The facts of the case are as follows :—

The Departmental check made in April/May 1954 as a result of a comment made in the Audit Report on the accounts of the Industrial Training Institute, Aundh, for the year 1951-52, regarding the omission to credit sale proceeds of certain manufactured articles by the Stores Clerk disclosed a loss of Rs. 4,201-14-0 due to falsification of records, sale of articles at lower prices and articles found short, etc. The loss was later estimated at Rs. 4,211-7-0 by the Accountant General, Bombay, in their letter No. OA/6643, dated 9th September, 1954. Investigation revealed that the loss was caused by the falsification of records by the Stores clerk, Shri—. Prosecution was launched against him and he was sentenced by the court to 8 months' rigorous imprisonment. He was also dismissed from service with effect from 30th December, 1955. As the Principal and the Deputy Manager were also found to be guilty of neglect of duty in supervising the work of the Stores clerk, a departmental enquiry was initiated against them. The main charge against Shri—was that he entrusted the work to the Deputy Manager and failed to exercise effective supervision over the working of the stores and sales shop of the Institute, and that against Shri — was that he failed to carry out satisfactorily the work entrusted to him pertaining to the stores and the sales shop. As a result of the findings in the departmental enquiry both the Principal and the Deputy Manager were ensured and ordered to pay Rs. 400/- and Rs. 200/- respectively for their negligence resulting in loss to Government. During the course of the enquiry it was revealed that there were some false entries in the accounts involving a loss of Rs. 1,550-2-3 pertaining to the period 20th April, 1951 to 31st July, 1952. Shri — was working at the Institute as Deputy Manager. He was reverted on 31st July, 1952 to his permanent post under the Central Railway. Charges were framed against Shri — and forwarded to the General Manager, Central Railways for taking disciplinary action against Shri — and for recovering the amount of Rs. 1,550-2-3 from him.

The Deputy Chief Mechanical Engineer, Central Railway, issued the charge-sheet on Shri — on 22nd May, 1956 and asked for his explanation. Shri — refuted the charges and requested to be heard in person. The General Manager, Central Railway, requested this Ministry to comply with his request before calling upon the Railway Administration to take further action in the matter. As the *de jure* transfer of the administration of the Training Institute from the Central Government to the Government of Bombay was effected on 1st November 1956, the State Government were requested to take further action in the matter direct, and arrange for the oral enquiry in consultation with the Central Railway. The Director of Technical Education, Bombay, appointed on 17th May, 1957, Shri —, Inspector of Technical Education, Bombay to hold a departmental enquiry in the matter and to submit his report to him for necessary action. He has now intimated that the enquiry has been completed and that the findings will be reported to the General Manager, Cen- enquiry in the matter and to submit his report him for necessary action. Shri — was not suspended from service as the facts about the portion of the falsification of accounts during his term of office as Deputy Manager came to notice long after his reversion to his parent Department, the Railways.

This note has been seen by the Accountant General, Bombay.

21st March, 1958.

S. ABDUL QADIR,
*Director-General of Resettlement and
 Employment and Joint Secretary.*

APPENDIX L

Note from the Ministry of Rehabilitation pursuant to action taken on para 116 of the Sixteenth Report regarding review of the conduct of various Camp Commandants.

New Delhi, the 31st December, 1957.

The Public Accounts Committee desired that the 15 cases reported to them by the Ministry of Rehabilitation should be pursued more vigorously and a revised Note submitted to them stating:—

- (a) The amount of loss in each case,
- (b) Recovery, if any, effected from the persons responsible,
- (c) Prospect of any recovery, and
- (d) Disciplinary action taken.

2. The State Governments concerned were accordingly requested to furnish the requisite information. The reports received from them have been scrutinised and a statement showing the aforesaid particulars is attached. For facility of reference the information already furnished to the Committee has also been incorporated in the attached statement.

3. This Note has been vetted by the Chief Audit Officer (Food, Rehabilitation and Supply), New Delhi.

NAGENDRA BAHADUR,
Joint Secretary.

MINISTRY OF

Statement Showing The Result of Review of

S. No.	Name of relief camp	Duties & other responsibilities entrusted to the camp commandant	Name of the camp commandant	Period of service in camp	Whether still in Govt. service, if so, where & in what capacity	Average population of the camp
1	2	3	4	5	6	7
1.	Nari Sewa Sadan, Ulhasnagar.	General Administration supervision etc. of the camp, distribution of cash doles etc. among the camp inmates, maintenance of proper accounts and looking after the welfare of the camp inmates.	..	1-8-49 to 23-12-53	No.	1,500
2.	Pimpri Camp, Poona.	General admn. and supervision of the camp, proper maintenance of accounts, distribution of rations etc. among the camp inmates, local purchases, disbursement of loans & liaison between the DPS. and the Collector, Poona.	..	22-3-48 to 15-6-51	Under Suspension	7,000 to 8,000

REHABILITATION

The conduct of various Camp Commandants of Relief Camps

Brief particulars of the irregularity committed	Loss involved if any	Recovery effected so far (if not possible reasons thereof)	Amount yet to be recovered & the prospects of recovery (if not possible, reasons thereof)	Disciplinary action taken or proposed to be taken	Remarks
8	9	10	11	12	13
Lack of proper supervision resulting in the misappropriation of Govt. money amounting to about Rs. 5,000/-.	Rs. 4,946/14/9	Rs. 537/2/-	Chances of further recoveries are remote as none of the officers responsible, is in Govt. service.	No action was considered necessary by the Govt. of Bombay against the Camp Commandant as she had already attained the age of superannuation at the time when the mis-appropriation took place. She was also not in receipt of any pension. However, services of the other three persons who were responsible for mis-appropriation, were terminated and they were also black-listed for future employment, under the Govt. of Bombay.	
Charges of forgery and fraud.	Rs. 15,625/-		The main culprit (ex-Loan clerk) is absconding.	The Camp Commandant was prosecuted but was acquitted by the trying court. However, a Departmental enquiry was held and he was removed from service in May, 1955.	

1	2	3	4	5	6	7
3.	Gandhi Nagar Camp, Kolhapur.	General administration of the camp.	..	20-11-48 to 5-8-49	Not known.	6,000
4.	Do.	Do	..	6-8-49 to 21-1-53	Yes, Asstt. Custodian of evacuee Property, New Delhi.	7,000
5.	Dhandera Camp, Roorkee.	General Administration & supervision of the camp.	..	Not intimated by the State Government.	Not known.	1,900

8	9	10	11	12	13
<p>@Shortages in food grains worth about Rs. 12,000/-.</p>	<p>Rs. 7,873/7/6 @ Rs. 1,107 5*</p>			<p>It has been decided by the Government of Bombay that in the absence of adequate evidence on the basis of which the responsibility could be fixed for the shortages, no more recoveries should be effected.</p>	<p>@The amount of loss originally reported by the State Govt. and communicated to the PAC was Rs. 12,000/-/-.</p> <p>On re-assessment which was done after taking into account 1% shortage due to transit loss & another 1% due to retail distribution, this total loss has now been worked out at Rs. 7,873/7/-</p>
<p>*Shortages in food grains and failure to obtain proper securities for loans in 176 cases.</p>				<p>*It has since been decided by the State Govt. in consultation with their Legal Deptt. that the amount already recovered should be refunded, if and when such requests are made by the persons concerned. A portion of this amount has already been refunded to one of them.</p>	
<p>Charges of corruption.</p>	<p>No loss of Govt. money is involved.</p>	<p>The charge against the Camp Commandant was that he had induced a number of D. P. S. to pay him appreciable sums, giving them to believe that they were securities for the allotments of shops etc. Thus the amount is appropriated was not the Government money.</p>		<p>Shri Sinha was tried in the Court of Law but was acquitted. He was, however, removed from Govt. service. Necessary ban on his future employment in Govt. service was not considered necessary by the State Govt. as he was already above 55.</p>	

1	2	3	4	5	6	7
6.	Dhandra Camp, Roorkee.	General adminis- tration & supervi- sion of the camp.	..	19-5-48 to 9-11-49	Not known.	1,900
7.	Birsi Camp, Bhan- dara District.	General supervi- sion of the camp, arrangements for accommodation, distribution of rations etc., regis- tration of D.P.S., transport, move- ment by rail.	..	(i) 1-2-48 to 16-2-48 (ii) 17-8-48 to 25-8-48 (iii) 26-8-48 to 15-11-48	Asstt. Com- missioners at Waraseoni, Chanda, & Jabalpur res- pectively.	10,000
8.	Sanganer Camp, Jaipur.	(a) General Ad- ministration and supervision of the camp. (b) Reception of D.P.S. and their registration. (c) Accommoda- tion, feeding, clothing arrange- ments. (d) Proper main- tenance of accounts.	..	1-12-48 to 4-6-50	No.	17,000

8	9	10	11	12	13
Charges of embezzlement	No loss of Govt. money is involved.		The U.P. Govt. intimated that a sum of Rs. 4,183-2-2 was misappropriated from the loan of Rs. 92,000 advanced to Dhandera Pursharthi Consumers' Co-operative Society under the U. P. Relief & Rehab. Loan Act, 1948. Thus the question of the embezzlement of Govt. money is not involved.		The State Govt. did not institute any proceedings against the Camp Commandant as it was found after due investigations that no case could be made out against him. The other two officers, namely Accountant & Cashier, were tried in the Court of Law. The former was acquitted but the Cashier was sentenced to 3 months' R.I.
(a) Serious shortages in stocks of fuel wood, and	..	..	..		The case was examined by the erstwhile Madhya Pradesh Govt. and the officers concerned were censured 1.
(b) Excess issues of cloth & blankets.					
Issues of rations on 50 bogus cards to non-entitled persons.	Rs. 1,620/-	Recoveries could not be effected as the officers responsible were then no longer in service.			The services of the Camp Commandant and the Accountant were terminated.

1	2	3	4	5	6	7
9.	Kishangarh Camp, Jaipur.	(a) General Administration and supervision of the Camp.	..	4-5-49 to 6-8-49	Yes, in Panchayat Deptt, Udaipur.	2,000
		(b) Reception of D.P.S. and their registration.				
		(c) Accommodation, feeding, clothing arrangements.				
		(d) Proper maintenance of accounts.				
10.	Sardar Shahar Camp, Bikaner.	Do.	..	2/49 to 3/49	No.	18,000

8	9	10	11	12	13
Alleged misappropriation of Government stores including 400 tins of vegetable ghee & non-maintenance of accounts in respect of cloth and rations distributed among D.P.S.	Rs. 20,001/15/9	..	..	..	According to the latest information received from State Govt. they are now of the view that no misappropriation seemed to be involved in this case. However, a definite conclusion could not be carried at as some of the records were not available with the State Govt. for audit. The matter is now stated to have been referred to the A. G., Rajasthan in whose consultation it will have to be finally decided, from whom the reply is still awaited.
Non-maintenance of distribution accounts of clothing.	Rs. 33,595/-	..	..	..	The State Govt. have since traced the relevant accounts which have been audited by the A. G., Rajasthan as a result of which a sum of Rs. 22,749/- has been reimbursed to the State Govt. For the balance of Rs. 10,846/ the matter is still under consideration and the State Govt. have intimated that the question of fixing responsibility at this stage does not arise.

1	2	3	4	5	6	7
11. Sujangarh Camp, Bikaner.	(a) General Administration and supervision of the camp.	..	Not intimated.	No.	3,500	
	(b) Reception of D.P.S. and their registration.					
	(c) Accommodation, feeding, clothing arrangements.					
	(d) Proper maintenance of accounts.					
12. Ahmedabad City Relief Camp.	Do.	..	(i) 5-7-49 to 10-2-50 (ii) 1-10-48 to 31-7-49 (iii) 18-3-49 to 4-7-49	(i) Not known. (ii) Asstt. Custodian, Lucknow. (iii) No	4,000	
13. Sabarmati Camp, Ahmedabad.	Do.	..	14-2-48 to 14-9-50	Yes. Deputy Collector, Bulsar, Surat District.	18,000	

8	9	10	11	12	13
Misappropriation of public funds.	Rs. 516/5/-	No recoveries have been effected as the whereabouts of the culprits are not known to the State Govt.		Responsibility could not be fixed as the persons concerned have since long left Govt. Service. The amount was, therefore, written off.	
Lack of proper supervision resulting in heavy shortages of food stuffs.	Rs. 8,402/8	Rs. 219/1	Only a sum of Rs. 219/1 could be recovered from Smt. Malkani, a clerk, and the balance of Rs. 8,183/7 was written off as responsibility for it could not be fixed by the Bombay Government.	Shri G. I. Punwani was also initially held responsible for these shortages and a sum of Rs. 770/5 due to him was withheld. But subsequently on detailed investigation it transpired that when the shortages had occurred he was under suspension for certain other reasons. Eventually the amount withheld was released.	
Heavy shortages	Rs. 7,414/15/-			The increments of Shri Bhatt were stopped for two years in the grade of Dy. Collector without permanent effect.	The Government of Bombay are considering the question of instituting legal proceedings against the contractor who is alleged to have over charged Government for the supplies made in consultation with their legal Department.

1	2	3	4	5	6	7
14. Kukernagar & Sardarnagar Camps	(a) General Administration and supervision of the camp.	..	(i) 1-4-50 to 26-11-51	Yes, Officer I/C Camp No. 5 Ulhasnagar.	10,000	
	(b) Reception of D.P.S. and their registration.		(ii) 3-12-51 to 1-8-52	Yes, (ii) Asstt. Administrator, Sardarnagar, township.		
	(c) Accommodation, feeding, clothing arrangements.					
	(d) Proper maintenance of accounts.					
15. Phaphamau Camp, Allahabad.	Do.	..	8/48 to 11/49	Yes, Asstt. Custodian of Evacuee Property, Kanpur.	1,700	

8	9	10	11	12	13
Non-maintenance of accounts and negligence of duty, etc.	No loss.	.	..	The irregularity committed related to the non-maintenance of upto date block Registers. In view of the peculiar circumstances, which existed in 1948-49. Government of Bombay condoned their regularity as no case of loss of Government money was involved.	
Serious irregularities in relation to maintenance of accounts.	Rs. 13,417	.	..	With a view to fixing responsibility on the Officers responsible for these irregularities, the Govt. of U. P. called for their explanations in accordance with the prescribed procedure, which have since been received. The matter is now being considered further by State Govt., who have, however, not taken any final decision so far.	

APPENDIX LI

Note from the Ministry of Steel, Mines and Fuel (Department of Mines and Fuel) under para 8 of Audit Report (Civil) 1956—Part I regarding non-realisation of stowing excise duty on coal and coke transported by means other than rail.

(a) *A statement showing the total amounts collected annually during the last five years for the stowing fund and the amounts that were spent out of it during these years.*

A statement showing:—

- (i) the net proceeds of the excise duty collected under the Coal Mines (Conservation and Safety) Act, 1952, on coal and coke *despatched by rail* during the financial years 1952-53 to 1956-57;
- (ii) the proceeds of excise duty collected under the Act on coal and coke *despatched by means other than rail* during the financial years 1954-55, 1955-56 and 1956-57; and
- (iii) the expenditure incurred by the Coal Board from out of the Coal Mines Safety and Conservation Fund during each of the financial years 1952-53 to 1956-57.

is attached as Annexure I to this note. The following information is also furnished in clarification of the figures given in the statement:—

- (1) Under Section 11 of the Coal Mines (Conservation and Safety) Act, 1952, the Central Government may, in each financial year, pay to the Coal Board a sum not exceeding the net proceeds of the duty of excise collected under the Act during the *proceeding* financial year.
- (2) Excise duty on coal and coke *despatched by means other than rail* is being levied under the Act after the issue of the Coal Mines (Conservation and Safety) Rules, 1954 on the 25th September, 1954. The excise duty is being collected actually from 1st October, 1954.
- (3) The figures of net proceeds of excise duty collected on *despatches by rail* during the financial years 1952-53 and onwards, indicated in the statement at Annexure I, are based on the figures given by the various Railway Administrations which collect the duty, and those in the certificates of net proceeds, as well as those on the intimations of remittances in to the Reserve Bank, sent by the Railway Administrations to the Coal Board. The figures for the years 1952-53 to 1954-55 are provisional.

The figures for 1952-53 could not be verified by the Accountant General, West Bengal, as the relevant chalans have already been destroyed, the tenure of their preservation being over; and those for 1953-54 and 1954-55 still await reconciliation as the particulars of the relevant chalans in respect of the discrepant amounts have yet to be made available by the Coal Board to the Accountant General, West Bengal.

- (4) The figures in column 3 of Annexure I in respect of the proceeds of excise duty on coal and coke despatched by means other than rail are provisional. The transactions have originated in the Circles of the Accountants General, West Bengal, Bihar, Madhya Pradesh (Nagpur and Gwalior Branches) and Andhra and are under reconciliation by the Coal Board and the Accountants General
- (5) The figures of expenditure incurred by the Coal Board from out of its funds, indicated in the statement in Annexure I, are based on the accounts of the Coal Board as audited and certified by the Accountant General, West Bengal.

(b) Whether these amounts collected are being spent for the intended purpose:

Yes. The purposes for which the moneys received by the Board shall be applied, are stated in Section 12 of the Coal Mines (Conservation and Safety) Act, 1952. The Act provides that the accounts of the Board shall be examined and audited by the Comptroller and Auditor General of India at such times and in such manner as he deems fit. Rule 60 of the Coal Mines (Conservation and Safety) Rules, 1954 provides that the Comptroller and Auditor General may disallow any item of expenditure which, in his opinion, has been expended out of the Fund otherwise than as directed by or under the Act or the Rules. The accounts of the Board are audited annually by the Accountant General, West Bengal, and no expenditure has so far been disallowed as having been incurred for any purpose other than that provided for in the Act and the rules thereunder.

(c) What is the cumulative effect of the cesses etc. levied on coal by the Ministries of Steel, Mines and Fuel and Labour? It may be stated in terms of a ton of coal.

(1) Under the Coal Mines (Conservation and Safety) Act, 1952, administered by the Ministry of Steel, Mines and Fuel, excise duty on coal and coke is at present being levied at the following rates:—

- (i) six annas per ton on all coal including soft coke but excluding hard coke; and
- (ii) nine annas per ton on hard coke.

(2) Under the Coal Mines Labour Welfare Fund Act, 1947, administered by the Ministry of Labour and Employment, excise duty is at present levied at the rate of six annas per ton on all coal and coke.

(3) Under the Coal Mines Rescue Rules, 1939, administered by the Ministry of Labour and Employment, an excise duty at the rate of 2½ pies per ton is being levied on all coal and coke despatched by rail from collieries or coke plants situated in the Jharia and the Raniganj coalfields.

(4) Excluding the excise duty under the Coal Mines Rescue Rules, referred to in item (3) above, the cumulative effect of the cesses etc. on coal and coke, levied by the Ministries of Steel, Mines and Fuel and Labour and Employment, is as follows:—

(i) on coal and soft coke	12 annas per ton
(ii) on hard coke	15 annas per ton

(d) *A statement showing the quantities of coal raised annually from 1952 to 1957 and quantities despatched by rail, road and river separately.*

A statement giving the information is attached as Annexure II to this note. Separate figures in respect of despatches of coal by road and by river are not available. Consolidated figures of despatches of coal by all means "other than rail" have therefore been furnished in the statement.

N. S. MANI,
Joint Secretary.

ANNEXURE I

Year	Net proceeds of excise duty on coal and coke despatched by rail, collected under the C.M. (C. & S.) Act	Net proceeds of excise duty on coal and coke despatched by means other than rail, collected under the C.M. (C. & S.) Act	Total of columns (2) and (3)	Rs.	As.	Rs.	As.	Rs.	As.	Expenditure incur- red by the Board from out of the CMSC Fund	Remarks
(1)	(2)	(3)	(4)	(5)	(6)						
1952-53	. . . . .	. . . . .	No duty levied or collected.	Rs.	As.	Rs.	As.	Rs.	As.		
	1,18,69,001	12 0		1,18,69,001	12 0	72,39,266	1 3				
1953-54	. . . . .	. . . . .	Do.	Rs.	As.	Rs.	As.	Rs.	As.		
	1,11,99,079	9 1		1,11,99,079	9 1	70,83,833	0 0				
1954-55	. . . . .	. . . . .	75,139 12 9*	1,10,09,133	12 0	56,32,327	14 9				*Excise duty collected from 1-10-1954.
1955-56	. . . . .	. . . . .	4,57,417 10 9	1,22,27,748	9 9	69,91,475	3 9				†Figures provisional being under reconcilia- tion by the Coal Board and the Accountants General.
1956-57	. . . . .	. . . . .	5,50,387 15 3	1,21,50,880	9 9	86,66,448	7 6				

ANNEXURE II

(Figures in million tons)

Year	Total raisings of coal (in million tons)	Despatch of Coal & Coke by rail			*Despatches of coal and coke by means other than rail, i.e. road, river, tramway etc.	
		Coal	Soft Coke	Hard Coke	Coal & Soft Coke	Hard Coke
(1)	(2)	(3)			(4)	
1953	. . . . 35.98	29.612	1.458	0.403	31.473	1.037
1954	. . . . 36.88	30.782	1.497	0.484	32.763	1.154
1955	. . . . 38.23	31.535	1.604	0.588	33.727	1.470
1956	. . . . 39.43	33.174	1.603	0.630	35.407	1.833
1957	. . . . 43.46	35.726	1.627	0.702	38.055	2.024
						0.032
						2.056

N.B. (1) Figures in columns 2 to 4 are for the Calendar years.

*(2) Separate figures regarding despatches by 'road', 'river', 'tramway', etc. are not available. Figures in column 4 accordingly indicate despatches by 'means other than rail'.

APPENDIX LII

Note from the Ministry of Steel, Mines and Fuel (Department of Mines and Fuel) regarding estimated cost of production per ton of coke and other by-products under the Rs. 51 crore as well as under the Rs. 20 crore projects under page 61, Grant No. 132—Capital Outlay of the Ministry of Production, Note 4-sub-head A.1(9)-Establishing of a Synthetic Oil Plant, Appropriation Accounts (Civil) 1954-55.

Rs. 51 Crore Project

The synthetic oil plant originally recommended under M/s. Lurgi's Rs. 51 crore project was primarily intended for an annual production of 2,16,000 tons of motor gasoline and 84,000 tons of aviation gasoline. It involved a combined process of low temperature carbonisation and hydrogenation and Fiseher-Tropsch synthesis. The following by-products were expected under this scheme:—

Semi-Coke	640,000 tons year
MediumCoke	75,000 tons/year
Raw phenols	8,200 tons/year
Animonia	11,000 tons/year

There were two other firms M/s. Kopper of Germany, M/s. Kellog of U.S.A., who also submitted two reports but not so much in detail. The by-products would depend upon the process chosen.

Rs. 20 Crore Project

The Expert Committee set up by the Government under the chairmanship of a Member. Planning Commission went into the various aspects of the matter in considerable detail. The Committee finally recommended in 1956 a scheme which involved a capital outlay of Rs. 20 crores and was limited to low temperature carbonisation of 1·2 million tons of non-coking coal for the annual production of 7,90,000 tons of low temperature coke including 6,60,000 tons of larger than ¾" smokeless domestic fuel, and the consequential utilisation of by-product tar for production of 121,500 tons of motor fuel, 2,000 tons of phenol and 40,000 tons of road tar. This scheme, therefore, may be more correctly described as a soft coke-cum-synthetic oil project, rather than as a project for synthetic oil alone.

2. In the context of the Government's intention to set up an oil refinery for the production of petroleum products based on indigenous crude oil from Assam, the Committee later re-examined the entire matter. The Committee also took into account the need for large scale production of domestic coke in order to reduce the drain on the use of wood, cow dung etc., for fuel purposes. Accordingly, in its second report submitted in March, 1957, the Committee drew up (i) a long term plan for the production of 50 million tons of

domestic soft coke by low temperature carbonisation, together with the production, by simple refining and distillation, of by-products such as motor gasoline, diesel and fuel oils, phenols, road tar etc., at a total capital cost of Rs. 600 crores; and (ii) a *short term plan* for the production of about 8 lakh tons/year of domestic soft coke by the carbonisation of coals from the Jambad/Kajora areas, with by-products such as gasoline, heavy diesel oil, fuel oils, phenols and road tar, involving a capital outlay of Rs. 10 crores. In this report, the Committee also recommended the setting up of a low temperature carbonisation plant for the production of domestic soft coke in the Singareni coalfields.

3. Estimates of the cost of production of coke and other by-products of the Rs. 51 crores and Rs. 20 crores plant were not separately calculated by the Technical experts/Experts Committee. A copy of a statement prepared by Messrs. Lurgi showing the economics of the combined synthetic oil plant at a cost of Rs. 51 crores is attached—Annexure I.

4. The Experts Committee adopted the following selling rates as the basis for calculating the credit for working out the cost per ton of synthetic motor fuel produced under Rs. 20 crores projects:—

(i) Coke	Rs. 28/- per ton.
(ii) Medium coke . . . . .	.. 14/- per ton.
(iii) Coke Breeze . . . . .	.. 5/- per ton.
(iv) Phenol . . . . .	.. 500/- per ton.
(v) Road tar . . . . .	.. 200/- per ton.

Taking into account the credit afforded by the sale of these products, the cost of production of one ton of motor fuel was worked out to be Rs. 243·0 per ton or Annas 12·70 per gallon, on the basis of the combined project. Statement indicating the costing of the various products as worked out by the Experts Committee are attached as Annexures II to IV.

5. The comparative sale prices adopted for the various products under the two schemes are as under:—

Name of the Product	Sale price adopted (in Rs. per ton).	
	Under Rs. 51 crore	Under Rs. 20 crore
Motor gasoline	228	243*
Aviation gasoline	456	..
Coke	28	28
Medium coke	15	14
Raw phenols	500	500
Ammonia	500	..
Coke breeze . . . . .	..	5
Road tar . . . . .	..	200

*This is the estimated cost of production worked out by the Expert Committee.

6. Government have examined the schemes for the production of domestic coke by low temperature carbonisation, together with the consequential utilisation of the by-products. While Government consider the schemes feasible, it has not been possible to make any financial provision for them so far because of the difficult foreign exchange position and the difficulty of finding even the rupee resources.

7. This note has been seen and concurred in by Finance and the Audit Officer, (F.R. & S. C.S. & M.), New Delhi.

The 15th April 1958.

N. S. MANI,
Joint Secretary

ANNEXURE I

Extracts from the Report Submitted by Messrs Lurgi at pages 104 and 105.

ECONOMICS OF THE COMBINED SYNTHETIC OIL PLANT AT A COST OF RS. 51 CRORES.

(As estimated by M^s Lurgi of Germany in their Project Report of October, 1955.)

Output Capacity

motorgasolin	216,000 t./year
aviation gasoline	84,000 „
semi-coke	640,000 „
medium coke 1/4"-3/4"	75,000 „
raw phenols	8,200 „
ammonia	11,000 „

Coal Input

synthesis	858,000 „ at Rs. 6	Rs. 4,850,000
---------------------	------------------------------	------------------

Low temperature

carbonization	1,110,000 „ at Rs. 10	11,100,000
Energy production fines	444,000 „ at Rs. 6	2,660,000

Catalysts and Chemicals

F.T. Synthesis : Catalysts and Chemicals	7,650,000
Hydrogenation : Catalysts	1,950,000

Labour

Wages for 1100 men at Rs. 2,400 plus 40% of that amount for salaries 3,700,000

Investment Costs of Plant erected in India.

	Rs.
	510,000,000
Interest on borrowed capital 7.5% of Rs. 510,000,000. (5% per year, for 1½ years)	38,000,000
TOTAL	548,000,000

Maintenance and Overhead Charges

	Rs.
3.5% of Rupees 548,000,000	19,180,000
Annual Expenditure	51,120,000

Page No. 104 (of the Report)

Annual Income

motor gasoline	216,000 t/year at Rupees 22½	49,250,000
aviation gasoline	82,000 „ at Rs. 456	38,400,000
semi-coke	640,000 „ at Rs. 28	17,900,000
medium coke 1¼"—¾"	75,000 „ at Rs. 15	1,130,000
raw phenols	8,200 „ at Rs. 500	4,100,000
ammonia	11,000 „ at Rs. 500	5,500,000
Annual Income		116,280,000
		<u>116,280,000</u>
	Less	51,120,000
Annual Gross Profit		<u>65,160,000</u>

Equivalent to 6 crores and 51.6 lakhs of Rupees.

ANNEXURE II

Production Costs of Synthetic Petrol for the Integrated Project Recommended

(Based on 8000 hours per year)

(Excluding Coal Mines)

Items	Units	Unit Cost	Quantity	Rupees per year
<i>Raw materials</i>				
1. Coal	Tons/year	Rs. 10.0	1,200,000	12,000,000
2. Middle oil	Tons/year	Rs. 120.0	30,000	3,600,000
3. Crude Benzol.	Tons/year	Rs. 14.0	40,000	5,600,000
<i>Utilities</i>				
4. Electricity	KW Ans./Kwh	0.4	22,500	4,500,000
5. Steam (20 Atm.)	Tons/year	Rs. 6.5	17.7	920,000
6. Steam (3 Atm.)	Tons/year	Rs. 5.5	12.2	536,000
7. Make up water	M ³ hour	As. 0.9	48.4	21,800
8. Cooling water	M ³ /hour	As. 0.18	1250	
<i>Stores</i>				
9. Catalyst & Chemical . . . . .	..	..	..	1,200,000
10. Labour	Man year	Rs. 2400	400	960,000
11. Supervision . . . . .	..	..	30% of Labour costs	288,000
TOTAL				29,748,000 (I)
<i>Credits</i>				
Road.	Tons/year	Rs. 200	40,000	8,000,000
Coke	Tons/year	Rs. 28	660,000	18,480,000
Medium Coke	Tons/year	Rs. 14	65,000	910,000
Coke Breeze	Tons/year	Rs. 5	65,000	325,000
Raw phenols	Tons/year	Rs. 500	2,000	1,000,000
TOTAL				28,715,000 (II)
12 Overheads	1.0% of Capital investment/year			
13. Maintenance	2.5% of Capital investment/year			
14. Depreciation	8.3% of Capital investment/year			
15 Interest	5.5% of Capital investment/year			
17.3% of Capital investment/year (Rs. 16.0 crores)				27,680,000
5.5% of Additional Capital of Rs. 1.5 crores				825,000
TOTAL				28,505,000 (III)

Total costs (I) + (III)	Rs. 29,748,300
	<u>Rs. 28,505,000</u>
	Rs. 58,253,300
Total Credits (II)	<u>Rs. 28,715,000</u>
TOTAL	Rs. 29,538,300
Total Production 121,500 tons of motor fuel	
Cost of Production/Ton of motor fuel= Rs. 243.00 (1 Ton—306 gallons)	
Cost of Production/Gallon of motor fuel= Rs. 12.70.	

ANNEXURE III

COST CALCULATIONS FOR DIFFERENT SECTIONS OF THE INTEGRATED PROJECT

COST OF PRODUCTION OF SYNTHETIC PETROL BY GAS PHASE

Hydrogenation of Tar—Annexure III-A.

Production 82,000 Tons Motor Petrol/year of 8,000 hours

Items	Units	Rate per unit	Quantity	Rupees per year
I. Raw materials				
Middle oil . . .	Tons/year	Rs. 120.0/Ton	30,000	3,600,000
Low Temperature . . .	Tons/year	Rs. 60.0/Ton	110,000	6,600,000
				Rs. 10,200,000 I
II. Utilities				
Electricity . . .	KW	As. 0.4/Kwh	15,000	3,000,000
Steam (20 Atm.) . . .	Tons/hour	Rs. 6.5/Ton	12.0	624,000
Steam (3 Atm.) . . .	Tons/hour	Rs. 5.5/Ton	6.1	268,000
Make up water. . .	M ³ /hour	As. 0.9/M ³	32.0	14,500
Cooling water . . .	M ³ /hour	As. 0.18/M ³	500.0	72,000
Catalyst & Chemicals . . .	..	..	..	900,000
Labour . . . . .	..	Rs. 2400/Man year	150	360,000
Supervision . . . . .	..	30% of labour cost	..	108,000
				Rs. 5,346,500 II
III. Other Charges				
Overheads . . .	1.0% per annum of capital investment			
Maintenance . . .	2.5% per annum of capital investment			
Depreciation . . .	8.3% per annum of capital investment			
Interest . . .	5.5% per annum of capital investment.			
TOTAL . . .	17.3% per annum of capital investment of Rs. 9.0 crore			Rs. 15,570,000 III
IV. Credits				
Road tar . . .	40,000 tons @ Rs. 200/Ton.			Rs. 8,000,000
Phenol . . .	2,000 tons @ Rs. 500/Ton			Rs. 1,000,000
				Rs. 9,000,000 IV

Total Expenditure

Raw materials.	.	.	Rs. 10,200,000	I
Utilities	.	.	Rs. 5,346,500	II
Capital charges	.	.	Rs. 15,570,000	III
			<u>Rs. 31,116,500</u>	
Credits	.	.	Rs. 9,000,000	
			<u>Rs. 22,116,500</u>	

Cost of synthetic petrol from gas phase Tar Hydrogenation

--Rs. 269·7/Ton (1 Ton = 310 gallons)

= As. 13·92/Gallon.

—————

ANNEXURE III

COST CALCULATIONS FOR DIFFERENT SECTIONS OF THE INTEGRATED PROJECT

Coke Production Section — Annexure III-B

(Low Temperature Carbonisation Plant)

Item	Rate/Unit Quantity	Units	Quantity	Total cost per year
1	2	3	4	5
I. Raw material				
Coal . . .	Rs. 10.0/Ton	Tons/year	1,200,000	12,000,000 I
II. Utilities & Labour				
Electricity . . .	As. 0.4 /Kwh	KW	3,000	600,000
Steam (20 Atm.) . .	Rs. 6.5/Ton	Tons/hour	4.0	208,000
Steam (3 Atm.) . .	Rs. 5.5/Ton	Tons/hour	6.1	268,000
Make up water . . .	As. 0.9/M ³	M ³ /hour	8.0	3,600
Recycle water . . .	As. 7.18/M ³	M ³ /hour	200	18,000
Chemicals . . .	..	..	..	100,000
Labour . . .	Rs. 2400/Man-year	..	250	600,000
Supervision . . .	30% of labour costs	..	..	180,000
TOTAL . . .				1,977,600 II

I II. Other Charges

Overheads . . .	1.0% per annum on Capital investment
Maintenance . . .	2.5% per annum on Capital investment
Depreciation . . .	8.3% per annum on Capital investment
Interest . . .	5.5 % per annum on Capital investment

17.3% per annum on Capital investment
of Rs. 6.5 crores

Rs. 11,250,000 III

I V. Credits

Domestic coke . . .	Rs. 28	Tons/year	660,000	18,480,000
Medium coke . . .	Rs. 14	Tons/year	65,000	910,000
Small coke . . .	Rs. 5	Tons/year	65,000	325,000
Gas . . .	..	..	..	Nil

1	2	3	4	5
Ammonia . . .	..	..	..	Nil
Tar . . .	Rs. 60	Tons/year	110,000	6,600,000
TOTAL . . .				26,315,000 IV
Annual expenditure .		Rs. 12,000,000	I	
		Rs. 1,977,600	II	
		Rs. 11,250,000	III	
		Rs. 25,227,600		
Credits . . .		Rs. 26,315,000	IV	
Annual profits from coke section		Rs. 1,087,400		

ANNEXURE III

COST CALCULATIONS FOR THE DIFFERENT SECTIONS OF THE INTEGRATED PROJECT

Coal Project Section—Annexure III-C

I. *Products:*

1. Coal + 1"	1,500,000 Tons per year
2. Slack—1"	1,000,000 Tons per year
TOTAL	2,500,000 Tons per year

II. *Annual Costs of Mines :*

$2,500,000 \times \text{Rs. } 8.5 = \text{Rs. } 21,250,000$ per year

Add for additional transport costs for coal for Low Temperature Carbonisation from Mines to Plant.

$1,200,000 \times \text{Rs. } 1.5 = \text{Rs. } 1,800,000$

TOTAL = Rs. 23,050,000 per year.

III. *Credits :*

Coal for Low Temperature Carbonisation 1,200,000 @ Rs. 10/- = Rs. 12,000,000

Coal for Railways Power Stations etc. 1,300,000 @ Rs. 13.5/- = Rs. 17,550,000

TOTAL Rs. 29,550,000

IV. Annual profits from the Mines	Rs. 29,550,000
	Rs. 23,050,000
	Rs. 6,500,000

ANNEXURE IV

ESTIMATED BREAK UP OF RETAIL SELLING PRICE OF PETROL AT CALCUTTA PER GALLON

WHS (PD)-32(2)/56

GOVERNMENT OF INDIA

*Ministry of Works, Housing and Supply
(Petroleum Division)*

New Delhi, the 17th Jan. '56.

Dear Shri Sundaram,

With reference to our conversation on 16th January, 1958 regarding retail selling price of Petrol, I attach a statement showing the estimated break up of the price at Calcutta per gallon.

Yours sincerely,
Sd/- (K. K. ROY).

Shri S. R. Sundaram,
Under Secretary,
Ministry of Production,
New Delhi.

	Rs.	As.	Ps.
1. C.I.F.	0	10	0
2. Remuneration on C.I.F. at 10%	0	1	0
3. Charges from C.I.F. to ex-main Port/Pump <i>i.e.</i>			
(i) Delivery charges from main installation to ex-local pump and remuneration thereon	0	3	0
(ii) Wharfage, leakage storage charges, handling charges, etc. & remuneration thereon	0	3	6
4. Dealer's commission	0	3	0
5. Import Duty	0	15	9
6. Interest and Del Credere on Duty	0	0	4.7
7. Sales Tax	0	6	0
		2	10 7.7
Say	Rs.	2	10 6

APPENDIX LIII

C2-19(1)/53.

New Delhi, the 16th July, 1957.

Note from the Ministry of Steel, Mines and Fuel (Department of Mines and Fuel) pursuant to action taken on para 30 of the Fifteenth Report regarding delay in disposal of Government building.

In para 5(b) of the Audit Report 1952 Part I certain observations were made about the disposal of buildings of the Directorate of Opencut Coal Mining at the Market Collieries. This was discussed by the Public Accounts Committee at their meeting of the 19th August 1954. At the meeting the Production Secretary undertook to investigate into the following issues:—

- (i) Why did agreements with the collieries not specify and identify the property?
- (ii) Why was there delay in discovering the property on the ground?
- (iii) Why, when the lapse of 12 months was to divest Government of the property, was not timely action taken?
- (iv) Why did the Ministry not take action upon the apparent negligence or failure of administration as at (i), (ii), (iii)?

2. However, when communicating the issues on which the Ministry of Production had to furnish additional notes, arising out of the discussions on the 19th August 1954, in their O.M. of the 25th August 1954 Lok Sabha Secretariat mentioned three other items but not this particular item. The Ministry made a reference in January 1955 to Lok Sabha Secretariat asking for confirmation that no information was required on any other points arising out of the meetings held in 1954 and the position was confirmed by them. So a reply was not furnished on this issue. Nevertheless, an investigation was going on in the Ministry on the four issues mentioned by the Production Secretary.

3. The absence of original records in this case has been a very great handicap as also the endless difficulties met with in identifying the properties on the ground. In fact, in the course of investigation it became clear that ordinary methods would not lead to any results at all, and therefore the Ministry decided to depute the Deputy Secretary dealing with the subject to proceed to Calcutta and make an on the spot investigation with the records of the Coal Controller's Office, the Chief Mining Engineer's Office and other relevant records. On the basis of this on-the-spot investigation a report has been prepared and attached, which gives the full history of the case and the difficulties met with. This partly explains the delay in sending a reply to the Lok Sabha Secretariat.

4. The answers to the questions emerging from the investigations are as follows:—

- (1) The buildings were put up at different times by the D.O.C.C.M., some kacha and some pucca at the market collieries, and there was no register or other record of the buildings and their location. In the circumstances the agreement generally indicated the future title to the property but there is no indication of the property on the ground of its description.
- (2) The delay in discovering the property on the ground is partly due to the manner of the operation of D.O.C.C.M., failure to maintain proper records, and last but not the least the destruction of such records as were available by the D.O.C.C.M., before they left.
- (3) The D.C.C. (P) expected, perhaps on reasonable grounds, that the S.L.P. would intimate the date of termination of the agreements and also hand over the Government buildings to him. There has been a detailed examination of this issue in the report, the conclusion of para 18 thereof explains it.
- (4) The investigation has shown that there has been delay in locating the buildings and that the D.C.C. (P) should have taken more vigorous steps to locate the buildings before the expiry of the period stipulated under agreements. Para 2 of the attached report will show that the investigation was directed with particular reference to fix responsibility for the delay in taking timely action and whether any disciplinary action is justified and can now be taken. The report will indicate that the officers who were in-charge of the post of D.C.C. (P) have retired long ago. The investigating officer, however, recorded in a note that none of the officers who were in-charge of the operations or engaged in this matter are in service now and no action is possible against any of them. Regarding responsibility of the Ministry all that was possible has been done when the case came to notice but the vicissitudes of this case and the methods and operations adopted by the DOCCM were the principal handicaps from which it is really difficult to get away.

5. In conclusion the sale of the buildings to the colliery is a two way process and it is perfectly legitimate for them to refuse to purchase in which case Government would have had no alternative but to dismantle and sell. A payment of Rs. 25,000 has been realised from one colliery and the issue relating to another is under arbitration.

S. R. KAIWAR,
Joint Secretary.

Report of investigation into the question of delay in the disposal of buildings built by the Directorate of Open Cut Coal Mining (D.O.C.C.M.) on Market Colliery Sites.

(A careful study of the available records in the Secretariat, the Coal Controller's Office (previously Coal Commissioner's Office) and the Chief Mining Engineer's Office, has been made in preparing this report. It may, however, be stated at the outset, that lack of complete records has made the task somewhat difficult. The old records of the Deputy Coal Controller (Production)—D.C.C. (P)—state that "their (D.O.C.C.M.) departure was abrupt and they did not care to hand over their files and papers to this office". In another place, the D.C.C. (P) has stated that "as a matter of fact it is common knowledge that before winding up D.O.C.C.M.'s organisation, most of the records were burnt by officers of that organisation". The Central P.W.D., which constructed most of the buildings, do not also seem to have maintained complete records. A letter dated 18th July, 1951 addressed by the Executive Engineer, Dhanbad Division, to the D.C.C. (P) contains the remark, "blueprint (of the buildings) is not available, so it cannot be sent". Incidentally, it may also be mentioned that the Audit party which scrutinised S.I.P.'s (who took over the work of D.O.C.C.M.) accounts, has observed that they made a "bon-fire" of some of the old records. It is necessary to mention these facts, firstly because all these parties figure in the report and secondly, certain assumptions have had to be made to present a connected account of the matter.)

2. The investigation has been directed with particular reference to fixing responsibility for the delay in taking timely action for the disposal of Government buildings constructed by the D.O.C.C.M. at the Market Collieries and whether any disciplinary action is justified and can now be taken, against the officials who are alleged to have failed to safeguard Government's interests.

3. The important events connected with this question need brief recapitulation. To arrest the decline in coal production during the last war (production dropped from 29 million tons in 1942 to 25 million tons in 1943) various measures were adopted by the Government and one of the measures adopted was to introduce, for the first time in the country, open cut mining operations, with the help of heavy excavating machinery purchased from America. A Directorate of Open Cut Mining was set up in 1944 under an Army Officer, with staff drawn from the Army, mostly British, and an American firm, employing a large number of Americans, were also associated with the work of D.O.C.C.M. This organisation, besides undertaking open cut mining operations at the Government Collieries in Bermo, also undertook such operations in five market collieries, namely (1) Junkunda (Adjai Collieries), (2) Pure Jambad, (3) Selected Jambad, (4) Sirka and (5) Teetulmari. In the case of the first three, the operations were undertaken under agreements entered into in March/April 1945 between the Governor General-in-Council and the colliery

companies; in the case of the last two, there were no formal agreements but apparently there was exchange of letters between the DOCCM and the collieries and the terms agreed to by DOCCM appear to have the approval of the Late Supply Deptt.

D.O.C.C.M. operations proved expensive (although the coal raised by the organisation was of great assistance at a time of emergency) and it was wound up in December 1945. The work being done by the D.O.C.C.M. was entrusted on a departmental basis, to a private firm called Sir Lindsay Parkinson & Co. Ltd. (S.L.P.)—*vide* the late Department of Supply (Main Secretariat) letter No. Coal 114(8) dated 25th December, 1945. This arrangement was continued up to 31st March, 1946 in the case of Government collieries, and up to 31st May, 1946 in the case of the Market collieries.

From 1st April 1946 the operations at the Government collieries were taken over by S.L.P., on a contract basis, for a period of two years (late Department of Industries and Supplies letter No. Coal 114(8) dated 24th May, 1946) and as regards the Market collieries, S.L.P. entered into separate agreements with them with the approval of the Government.

On the expiry of the two year period, (i.e., on 1st April, 1948) the work was taken over by the Indian Mining and Construction Co. Ltd., in which the Government of India and S.L.P. were the sole shareholders.

4. During the period when S.L.P. carried out the operations at the Government and Market collieries, (from December 1945 to 31st May 1948) all the operations were subject to the supervision and direction of the DCC(P), who was responsible for watching Government's interest at the site of the works. The DCC(P) was the controlling officer.

5. The D.O.C.C.M. was given wide financial powers, including "Power to sanction the building of works in connection with open cut operations as may be necessary for the operations not exceeding the value of Rs. one lakh for any individual work". The D.O.C.C.M. constructed either departmentally or through the C.P.W.D., a number of buildings for the staff and workers, loading wharfs, compound walls, water tank etc. and had also carried out improvements to roadways, culverts etc., in connection with the operations in the Market collieries. Some of the buildings were constructed under sanction of late Supply Department. The book value of all these buildings, roads and culverts etc. (as booked by the C.C.A.) is about Rs. 6.5 lakhs. The valuation of these buildings, structures etc., made by an officer of the D.C.C. (P) with the help of the C.P.W.D., in November 1951 put the market value of the buildings at Rs. 230, 100 as shown below :

Junkunla	1,37,700
Pure Jambad	90,400
Teetalmari	2,000

Total	2,30,100

No buildings appear to have been built by D.O.C.C.M. at Sirka and Selected Jambad. In the case of Teetalmari, a letter from Bird & Co., dated 26th January, 1949 to the D.C.C. (P) states that "some

structures were erected by the D.O.C.C.M. but were dismantled long ago and there is nothing left there now which can be taken over". The main constructions undertaken by the D.O.C.C.M. were at Junkunda and Pure Jambad Collieries.

6. The agreements entered into between the Governor General-in-Council and the market collieries, in March 1945 provided that the buildings, workshops, fixtures etc. which the D.O.C.C.M. shall erect and instal at his cost on land provided by the owner would remain the property of the D.O.C.C.M., who would have the right to dismantle and remove such buildings etc., at any time during the currency of the agreement or within 12 months of the termination thereof, after which all such buildings would become the absolute property of the colliery owners, unless the Director decided to dispose of such buildings by sale to the Colliery owners at a valuation mutually agreed upon.

7. When the D.O.C.C.M. operations were wound up in December 1945 and the work was taken over by S.L.P., on a departmental basis, the buildings, structures etc. put up by the D.O.C.C.M. at the Market Collieries came into the possession of S.L.P., but no systematic record of such buildings etc. was prepared at that time nor the buildings formally made over to S.L.P. The explanation for this may be that D.O.C.C.M. withdrew rather suddenly and the buildings etc. that were constructed remained the property of the Government and as S.L.P. were only acting as Government agents, there was no need to hand over the buildings to them.

8. S.L.P. took over the work at the Government collieries on a contract basis for a period of 2 years from 1st April 1946. Government's agreement with S.L.P. provided that "for such immovable property belonging to Government at market collieries as is not purchased outright by the colliery from Government, you will, if you undertake any work for these collieries, recover from them through your rates or otherwise a rental agreed with the D.C.C.(P) and pay the same to Government".

9. The D.O.C.C.M. agreement with the five market collieries terminated on 31st May 1946. Action was taken by the Coal Commissioner on 30th May, 1946 to intimate the termination of the agreement to the market collieries. In the case of Junkunda, Pure Jambad and Selected Jambad, letters were addressed to the Coys. on the 30th May 1946 which stated that the agreements between the Governor General-in-Council and the collieries would cease on the 31st May, 1946 but all the buildings, workshops, fixtures etc. which the D.O.C.C.M. may have erected would remain the property of Government and Government would have the right to dismantle and remove the buildings etc., at any time within 12 months of the date of the Colliery's agreement with S.L.P. became inoperative, after which all such buildings shall become the absolute property of the colliery. Should Government desire to dispose of all or any of the above properties by sale, the colliery would have the option to purchase them at a valuation to be mutually agreed upon. In the case of Sirka, the letter merely stated that the D.O.C.C.M. agreement with the Coy. should be deemed as having terminated on 31st May, 1946. A copy of each of these letters was endorsed to S.L.P. with the request that

steps should be taken for recovery and credit to Government in respect of immovable property at the collieries a suitable *rental* fixed in consultation with the D.C.C.(P) and that in case the colliery was willing to purchase any of the properties, negotiations for sale should be taken up with D.C.C.(P).

In the case of TeetaImari the letter dated 30th May, 1946 merely stated that the operations entered into by the colliery with the D.O.C.C.M. should be considered to have terminated on 31st May, 1946. A copy of this letter was endorsed to the D.C.C.(P) with the request that steps should be taken for sale to the colliery of any Government immovable property at the colliery and that the sale proceeds should be credited to Government.

10. The buildings etc. built by D.O.C.C.M. at the market collieries came into the occupation of S.L.P. at this juncture but it is not known why an inventory of the buildings etc. was not taken at this point of time nor S.L.P. asked to give a list of the Government buildings in his possession. The five letters addressed to the collieries were actually prepared by the Joint Financial Adviser who was closely associated with the S.L.P. in the various stages of the negotiations but it is not clear why the question of recovery of *rent* alone was raised at this stage and not the question of indentifying the buildings or even ascertaining the capital cost incurred on such buildings, structures etc.

11. A meeting was, however, held by the Coal Commissioner on 11th May, 1946 with the Finance Ministry (J.F.A.), the D.C.C.(P) and the C.C.A.* to consider the action necessary for implementing the agreements entered into with S.L.P. and for final settlement of accounts with the various market collieries consequent on termination of the D.O.C.C.M. agreements from 31st May 1946. At this meeting it was decided that the Government immovable property at the market collieries would not find a place in the schedule to the agreement with S.L.P., but that the D.C.C. (P) should initiate action, in consultation with C.C.A., for assessing *rental* in respect of the various immovable properties at the market collieries. Necessary action was taken to recover the rent from S.L.P. but the available records do not show what action was taken by D.C.C. (P) and C.C.† to make an inventory of the buildings constructed by D.O.C.C.M.

12. A further meeting was held by the Coal Commissioner on 24th January 1947 with S.L.P., Finance etc., *inter alia* "to agree what items of immovable property belonging to Government at the market collieries and not purchased outright by the collieries for which the company (S.L.P.) shall recover and pay *rent* to the Government and amount to be paid". The decision of this meeting was that for the items of immovable property belonging to the Government at the market colliery sites, which had not been purchased by the collieries and which were occupied by S.L.P., *rent* would be paid only for bungalows and quarters occupied by the S.L.P. staff.

*Controller of Coal Accounts.

†Coal Commissioner.

It will be seen that in all the discussions held during this period the question raised was only about the recovery of *rent* for the buildings occupied by S.L.P. This was presumably because the buildings etc. were still Government property and as they were occupied by S.L.P. the question of disposal did not arise. A list of the Government buildings, structures etc., does not appear to have been prepared even at this stage.

13. Under the letters dated 30th May, 1946, the responsibility for negotiating with the private collieries for the sale of the Government properties to the collieries was entrusted to S.L.P., in consultation with the D.C.C. (P). No such negotiations had been initiated by S.L.P. while the buildings were in their occupation. However, when the two year period expired, S.L.P. were specifically asked by the Coal Commissioner on 8th April, 1948 what *rental* had been recovered on account of immovable Government properties used by them at the market collieries and credited to Government. Details in respect of each of the market collieries were asked. S.L.P. replied on 11th April, 1948, that "the immovable property belonging to Government is in the form of houses which have been occupied by us and not by the owners of the respective market collieries. In view of the above the recovery of rental to be credited with the Government does not apply. The rental to be paid by us in respect of all housing is yet a matter to be agreed with the Government". On receipt of this letter, the D.C.C. (P) was requested by the Coal Commissioner, on 24th April, 1948, to prepare a list of such immovable property at the market collieries occupied by S.L.P. for fixing up the rent.

14. The D.C.C. (P)'s records show that on 19th August, 1948, a letter was addressed to Pure Jambad Collieries asking them for detailed information of the buildings, roads, structures, etc., erected by D.O.C.C.M. on the colliery together with their estimated valuation. Simultaneously, the Regional Coal Controller, Bengal/Bihar, was also consulted about the details of the buildings, etc., on this colliery. It is not clear why the other collieries were not similarly addressed at that time. The reply received by the D.C.C.(P) from the Pure Jambad Colliery on 10th September, 1948, gave the following details:

- "(1) About six Basha quarters with temporary structures all in dilapidated condition.
- (2) Three American huts almost in ruins in a garden that was temporarily requisitioned but now released.
- (3) Three brick built family quarters.
- (4) Wharf walls which have been damaged because of movement of heavy trucks on the wharf and has to be rebuilt for any use.

We are not in a position to give any valuation".

A report was also received by the D.C.C. (P) from the Regional Coal Controller in September, 1948, and the D.C.C. (P) forwarded these reports to the Coal Commissioner in November, 1948, "for

necessary action in respect of finalisation of the sale of the structures to the colliery owners in consultation with the Deputy Secretary, Finance, Calcutta". It is not clear what action was taken by the Coal Commissioner on this reference, but presumably the Coal Commissioner directed the Deputy Coal Commissioner (P) to negotiate with this colliery as well as with the other collieries for the sale of the buildings, structures, etc., to them, for, in a letter dated 6th January, 1949, the D.C.C. (P) again addressed the Pure Jambad Colliery inviting offers for the purchase by them of the buildings, structures, etc., "as otherwise the matter is to be referred to the Disposal authorities for necessary action". On the same date, perhaps for the first time, the D.C.C. (P) addressed the other colliery companies (Adjai Collieries—Junkunda—Selected Jambad, Sirka and Teetalmari) also for a detailed list of the buildings built by D.O.C.C.M., their valuation and any offer for purchase, by the colliery. The Regional Coal Controller was also asked simultaneously to investigate and report on the above points.

At this time an offer was received from Pure Jambad Colliery for the purchase of the three brick built buildings for Rs. 5,000 (the rest of the structures being unserviceable).

15. A reply was received from Andrew Yule and Co. (regarding Junkunda) on 15th January, 1949, as follows:

"Both D.O.C.C.M. and S.L.P. (India) Limited worked as contractors at our Junkunda quarry and we had no concern with any of the buildings or structures which they put up in connection with their work. We are unable, therefore, to supply the information for which you ask, which however should be available from the records of D.O.C.C.M. and by reference to S.L.P. (India) Limited."

This letter was personally seen by the D.C.C. (P) on 18th January, 1949, but the records do not show what follow up action was taken on it immediately. (It may be mentioned that the D.C.C. (P) who received the letter, retired from service within the next 9 days.)

A report was received by the D.C.C. (P) from the Regional Coal Controller (R.C.C.) in February, 1949, giving particulars about the quarters built at Junkunda Colliery by D.O.C.C.M. The report stated, "There are ten blocks of senior type quarters and about 80 kitchen rooms with brick walls and concrete roof. Some of the houses with bamboo matting walls and thatched roof are there but all are in rotten condition and are not fit for use.....I could not make the estimated valuation"....."On enquiry, I came to know that the buildings were constructed by the C.P.W.D. As the Asansol Office of the C.P.W.D. has been shifted, I could not get the information."

As regards Selected Jambad, the R.C.C.'s report was that no structures or buildings, either permanent or temporary were built by D.O.C.C.M. at the colliery. The R.C.C. does not seem to have sent any report about Sirka and Teetalmari, but Bird & Co.'s reply regarding Teetalmari has been referred to in para 5 above.

16. It is not necessary to trace the further history of the case, but the action taken during the next one year and more related to fixing the rent of the quarters occupied by S.L.P. and in addressing

the C.P.W.D. about the blueprints and other details about the buildings constructed by them at the market colliery sites. The D.C.C. (P)'s correspondence with the C.P.W.D. is a dismal story and in the end the Ministry had to write to the W.H.S. Ministry to move the Chief Engineer (C.P.W.D.) to help the D.C.C. (P) in locating the buildings. A local inspection could be arranged only in November, 1951.

17. During the period the quarters were in the occupation of S.L.P. i.e., from 1-6-46 until the completion of their agreement with the market collieries presumably in June 10, 1948, the question raised and discussed in the departmental meetings was only about the recovery from S.L.P. of rent for the buildings. The question of making an inventory of the Government buildings seems to have been raised by C.C.A. during this period, but records are not available to show what action was taken in the matter by the C.C. and D.C.C. (P). It was perhaps assumed, assumed bonafide, that as the buildings were in the occupation of the S.L.P., they would hand over the buildings to the D.C.C.(P) when their contract with the market collieries terminated. S.L.P., unfortunately failed to do this nor did they intimate the date of termination of the agreements to the D.C.C. (P). Looking back on the whole affair, it can now be said that the correct thing should have been for an inventory of the buildings taken in June, 1946, when S.L.P. entered into direct contracts with the market collieries and the quarters, structures, etc., formally handed over to S.L.P. and secondly to ascertain from S.L.P. the dates of expiry of their contracts with the market collieries. The reason for not doing this at that time is not easy to find.

18. However, the crucial period was one year from the date of termination of S.L.P.'s agreement in April or June, 1948, for, according to the agreements with the collieries, unless the buildings were sold or removed within 12 months from the date of expiry of the agreements, all such buildings would become the absolute property of the colliery owners. The D.C.C. (P) expected, perhaps on reasonable grounds, that S.L.P. would intimate to him the date of termination of the agreements and also hand over to him the Government buildings occupied by them. S.L.P. did not do this and their explanation is that with the formation of the I.M.C.C. from 1st April, 1948, they were under the impression that Government and D.C.C. (P) would be expected to know that the agreements with the private collieries had already expired. This position is legally correct, but the S.L.P. who were in actual occupation of the buildings had a responsibility to hand over the buildings to D.C.C. (P). The D.C.C. (P) had equally a responsibility to ask the S.L.P. to hand over the buildings to him.

19. The question of locating the buildings was raised as soon as the two year period of S.L.P. contract expired and the Coal Commissioner specifically asked the D.C.C. (P) on 24th April, 1948, to prepare a list of Government immovable properties in the market collieries. According to the records available action was taken by the D.C.C. (P) in respect of one colliery in August, 1948, and in respect of the others in January, 1949. It is not clear why more prompt and vigorous action could not have been taken. Further, Andrew Yule's letter dated 15th January, 1949, disclaiming any responsibility

for the buildings constructed by D.O.C.C.M. and S.L.P. was personally seen by the D.C.C. (P) on 18th January, 1949, who should have realised that unless immediate action was taken to refute the argument and state the correct position, the buildings would become the property of the Company within the next two months. A prompt reply asserting Government's rights over the buildings was immediately called for and immediate steps should have been taken with the assistance of S.L.P. to locate and take charge of the buildings. The colliery company appears to have gone into liquidation in 1948 and perhaps, the Managing Agents (Andrew Yule & Co.) did not disclose this fact to the D.C.C. (P), and bided for time, but this cannot explain the D.C.C. (P)'s failure in taking timely action.

20. The officers who were in charge of the posts of Coal Commissioner and D.C.C. (P) during the period in question were:—

<i>Coal Commissioner</i>	<i>D.C.C.(P.)</i>
Post vacant from 27-12-44 to 13-3-1946.	Mr. J. R. Harrison From 1-6-1944 to 20-10-1946,
Sir S. N. Roy From 14-3-46 to 19-10-46.	Mr. A. Orr From 21-10-1946 to 26-11-1946.
Mr. Harrison From 21-10-1946 to 24-2-1948.	Mr. W. Fairfield From 27-11-1946 to 27-1-1949.
Hon'ble S. K. Sinha From 25-2-1948 to 31-7-1949.	Mr. L. S. Corbett From 28-1-1949 to 6-4-1954.

The officers were in charge practically for short periods, during the period in question and none of the officers mentioned above is in service now.

21. One or two facts have to be borne in mind in dealing with this question. The buildings constructed were partly temporary structures and partly permanent structures. It is not easy to explain why the D.O.C.C.M. wanted to build permanent quarters at the market colliery sites. Perhaps the D.O.C.C.M. expected to carry on the operations at these collieries for a considerable time but had to withdraw, as the operations proved expensive. When the buildings came into the possession of S.L.P., they seem to have occupied only the permanent structures, leaving the temporary structures to fall into disuse. There is no question of such temporary structures being sold to the private collieries, because S.L.P. were continuing the operations at the collieries and the private collieries had no use for them and by the time S.L.P.'s operations were over, the structures had actually become dilapidated and unfit for any further use. Thus no value could have been realised for the temporary structures. At the time the S.L.P. operations were over, the only structures for which some value could have been realised were the permanent structures at the two collieries Junkunda and Pure Jambad. Pure Jambad had agreed to purchase the buildings at *their* valuation.

22. It may also be considered why the agreements were drawn up in such a manner that the properties became the absolute property of the collieries after 12 months from the date of termination of the agreements. The explanation may be this. The private collieries did not approach the Government for undertaking open cut operations at their collieries, on the other hand, it was the Government which wanted to undertake the operations at these collier-

ies, as such collieries offered good scope for open cut operations and it would have been difficult, if not impossible, to make the collieries pay for the structures that the D.O.C.C.M. wanted to put up in connection with *his* operations. Left to themselves the collieries would not have undertaken open cut operations at the collieries, in view of the heavy capital expenditure involved. They would have started operations, by manual labour, at *any* time that suited them. Thus the operations were started at these collieries, by the Government, to meet a crisis in coal production. The private collieries could not have been expected to pay the cost of the initial construction, nor even a fair valuation at the close of the operations, as the quarters were built by the D.O.C.C.M. for *his* type of operations and the *type* of staff recruited by him. The private collieries would not have gone in for such operations, nor recruited such staff, for whom quarters on the scale provided by the D.O.C.C.M. would have been necessary. For example, it appears that 10 senior type quarters and about 80 kitchen rooms with brick walls and concrete roof were built at Junkunda. The private colliery would not have put up such structures nor paid for them a reasonable price. Even if they were offered to them, for such a large number of cook houses and senior type quarters would be quite useless to them. The expenditure on the construction of the quarters, structures, etc., should therefore really be treated as part of the expenditure of the D.O.C.C.M. operations.

23. The investigation has, however, shown that there has been delay in locating the buildings, that the D.C.C. (P) should have taken more vigorous steps to locate the buildings before the expiry of the period stipulated under agreements.

24. To what extent Government's interests have been jeopardised by the delay in locating and taking over the buildings may be considered. As explained above, the temporary structures had become unserviceable by the time the S.L.P. operations were finished. It is a matter for conjecture if anything would have been realised by the disposal of such temporary structures. As regards the permanent structures, negotiations were in fact started with Pure Jambad as early as January, 1949. The colliery offered Rs. 5,000. If this offer was to be rejected, the only alternative was to dismantle and remove the structures. What value would have been realised by the removal and disposal of the structures is not easy to assess at present, but actually prolonged negotiations for a reasonable value for the structures were continued with the colliery and Government have since been able to obtain from the colliery a sum of Rs. 25,000 for the quarters constructed at the colliery. Government's interests cannot be said to have suffered in this case.

25. In the case of Junkunda, Government's interests were not adequately safeguarded, by not making a claim before the period of the agreement expired and by not taking over the buildings within the appropriate period. What value could have been realised is a matter for conjecture as discussed in para 23. If timely action had been taken in respect of Adjai Collieries (Junkunda), Government could have established their *claims* for their buildings, but it is more or less certain that if the buildings were offered to the management for purchase they would not have purchased them

because the buildings would have been of no value to them. However, Government's *claim* for the quarters would have been established in time. It would have been open to the Government to dispose of the buildings by dismantling and selling the materials. It cannot, however, be said that by the initial delay in taking over the buildings Government's interests have been completely lost. The present position is that in accordance with the terms of the agreement with the Colliery, the matter has been referred to arbitration before the arbitrators appointed by the Government and by the company. The arbitrators have appointed an umpire. The case is still pending.

The matter came to the notice of the Secretariat in September, 1949, on a note received from the Ministry of Finance suggesting that a report should be obtained from the D.C.C. (P) on the present position of the buildings. By that time, the period of the agreement with the collieries had expired and further action taken was to obtain D.C.C. (P)'s report and in getting the help of C.P.W.D. in locating the buildings as mentioned in an earlier paragraph.

26. The following conclusions could be reached as a result of the investigations into the matter:

(1) The D.O.C.C.M. built quarters and undertook other constructions at the market collieries, which later events proved to be excessive. It could not however be anticipated at the time when the buildings were put up that the D.O.C.C.M. operations would come to an abrupt end.

(2) No value could be realised for the temporary structures built at the market colliery sites, as by the time the D.O.C.C.M. contracts and S.L.P. contracts with the market collieries ended, the temporary structures had become useless for further use.

(3) Permanent structures were constructed only at two collieries, *viz.*, Junkunda and Pure Jambad. Government's interests cannot be said to have suffered so far as the structures built on Pure Jambad colliery are concerned. An offer of Rs. 5,000 was made by the colliery during the contract period, which if accepted would have resulted in great loss to the Government. Prolonged negotiations were continued with this colliery and ultimately it was possible to realise Rs. 25,000 for the buildings from the colliery.

As regards the quarters built at Junkunda, the D.C.C. (P) failed to take possession of the buildings before the expiry of the period of the agreement. As the buildings were in the possession of S.L.P., the D.C.C. (P) normally expected that they would hand over the buildings to him when the contracts expired. S.L.P. failed to do this, but as the responsibility for taking over the buildings was that of D.C.C. (P), S.L.P. cannot be held entirely responsible for this failure. The D.C.C. (P) did make an attempt to locate the buildings, but in the absence of records (of D.O.C.C.M.), it was difficult to locate them. The obvious course would have been to make a local inspection and locate the buildings but by the time this could be done, the period of the agreement had expired.

Even if the buildings were located in time, it would have been difficult to sell them to the colliery. Disposal of the buildings by sale of the materials to private parties was possible, but not much disposal value could have been realised. If however prompt action was taken Government could have established their *claim* for the buildings.

The matter is now under arbitration and Government may hope to get at least some portion (may be a small portion) of the expenditure incurred on the construction of the buildings.

All the officers who were connected with this matter have retired long ago.

The expenditure incurred on the construction of the buildings, should really be treated as part of the expenditure on D.O.C.C.M. operations.

APPENDIX LIV

Note from the Ministry of Transport and Communications (Department of Transport) pursuant to action taken on para 56 of the First Report regarding Accounts of Port Trusts—Submission to Parliament of the Audit Report relating to various Port Trusts—Amendment to the Port Trusts Act.

There are three statutory port authorities set up under law at the major ports of Calcutta, Bombay and Madras. The constitution of these port authorities is indicated below:—

(1) *Calcutta*: According to the Calcutta Port Act, 1890, twenty-four Commissioners from the Calcutta Port Commission as detailed below:—

(a) *Ex-officio Commissioners*—6

The Chairman;

The Deputy Chairman;

The Collector of Customs, Calcutta;

The Chief Executive Officer of the Municipal Corporation for the city of Calcutta;

The General Manager, Eastern Railway; and

The Director of the Railway Board at Calcutta.

(b) *Commissioners appointed by the Central Government*—5

One representative of the Mercantile Marine Department chosen by the Central Government;

One representative of the Defence Services chosen by the Central Government;

One representative of the Government of West Bengal chosen by the State Government; and

Two representatives of labour chosen by the Central Government after consultation with registered trade unions composed of persons employed in the port.

(c) *Elected Commissioners*—13

10 Commissioners elected by various Chambers of Commerce;

One Commissioner elected by the Indian Shipowners Association;

One Commissioner elected by the Calcutta Corporation; and

One Commissioner elected by the Howrah Municipality.

(2) Under the Bombay Port Trust Act, 1879, the Bombay Port Trust Board consists of twenty-five members as detailed below:—

(a) *Chairman*—1

(b) *Nominee-Trustees*—10

The Collector of Customs, Bombay, Ex-officio;

The General Manager, Central Railway, Ex-officio;

The General Manager, Western Railway, Ex-officio;

The Municipal Commissioner for the city of Bombay, Ex-officio;

One representative of the Mercantile Marine Department Bombay, chosen by the Central Government;

One representative of the Government of Bombay, chosen by the State Government;

Two representatives of the Defence Services, chosen by the Central Government, one of whom is to be a representative of persons employed in the port.

(c) *Elective Trustees*—14

Nine members elected by various chambers of commerce;

One member elected by the Bombay Mill-owners Association;

One member elected by the Indian National Steamship Owners Association;

One member elected by the East India Cotton Association; and

Two members elected by the Bombay Municipal Corporation.

(3) Under the Madras Port Trust Act, 1905, the Madras Port Trust Board is composed of twenty Trustees as detailed below:—

(a) *Chairman*—1

(b) *Ex-officio Trustees*—3

The Collector of Customs, Madras ;

The General Manager, Southern Railway, and

The Municipal Commissioner for the city of Madras.

(c) *Appointed by the Central Government*—5

One representative of the Mercantile Marine Department, chosen by the Central Government;

One representative of the Defence Services, chosen by the Central Government;

One representative of the Madras Government, chosen by the State Government; and

Two representatives of labour, chosen by the Central Government after consultation with registered trade unions composed of persons employed in the port.

(d) *Elected Trustees*—11

One trustee elected by the Municipal Corporation of the city of Madras; and

Ten trustees elected by local commercial interests.

2. The power to appoint the Chairman and the Deputy Chairman at the port of Calcutta vests in the Central Government. These officers hold office during the pleasure of the Central Government. The post of Deputy Chairman at the port of Calcutta is vacant at present. The normal term of office of the other elected trustees or Commissioners and trustees or Commissioners appointed by the Central Government by name is a period of two years. A Trustee or Commissioner appointed by the Central Government by virtue of his office, continues to be a Trustee or Commissioner so long as he continues to hold that office.

3. The establishment of the Port Authorities consists of a number of departments, e.g. Conservancy, Engineering, Traffic, Accounts, Stores, Land, Secretarial, Railway etc. The power to make appointments to posts of heads of departments under the Port Authorities is exercisable by the Central Government after consultation with the Chairman. But the port authorities themselves have the power to make appointments, promotions, etc. to other posts in their establishment subject to the sanction of the Central Government in respect of posts the maximum salary of which exclusive of allowances is not less than Rs. 1,000/-.

4. The primary responsibility for the development and administration of the three major ports of Madras, Bombay and Calcutta rests on the port authorities. These port authorities are non-profit making bodies and their earnings are not subject to income tax.

5. The Central Government exercise control over the port authorities in respect of the more important matters. Thus, the approval of the Central Government is required to the rates, dues and other charges proposed to be levied by the port authorities and to the debit of expenditure to capital. Similarly, the annual budgets or supplementary budgets of the port authorities have to be approved by the Central Government. The Central Government's approval has also to be obtained by the Port authorities in respect of the bigger contracts proposed to be entered into by them. The port authorities can borrow money by the issue of debentures or securities or otherwise for meeting their obligations, e.g. construction and repair works required for the port, and acquisition of movable or immovable property required for such construction or repair, etc. with the approval of the Central Govt.

6. The accounts of the receipts and expenditure of the port authorities are required to be laid before the Central Government once in every year and audited and examined by the Comptroller and Auditor General at such times and in such manner as may be determined by him. Within fourteen days after the audit and examination have been completed the audit report is to be forwarded to the Central Government and the Port Authorities. The Port Authorities must forthwith take into consideration any defects or irregularities that may be pointed out in the audit report and send a

report of the action taken, there to the Central Government. If there is a difference of opinion between the Board and the auditors on such point, the matter must be referred forthwith to the Central Government by the Port Authorities. The Central Government will pass final orders thereon and the Port Authorities are bound to give effect to such orders.

7. If, at any time, the Central Government are of opinion that on account of a grave emergency the Port Authorities are unable to perform the duties imposed on them or they have persistently made default in the performance of their duties and as a result of such of their duties and as a result of such default the financial position of the Port Authorities or the administration of the Port has greatly deteriorated, the Central Government can supersede the Port Trust Board or Port Commission, if necessary, for such period not exceeding six months at a time, after giving a reasonable time to the Port Authorities to show cause why they should not be superseded and considering their explanations and objections. During the period of such supersession, all property vested in the Port Authorities vest in the Central Government and the Central Government can direct any person to exercise and perform all the powers and duties of the Port Authorities.

8. The Comptroller and Auditor General has no comments to make on this note.

NAGENDRA SINGH,
Joint Secretary.

APPENDIX LV

Note from the Ministry of Transport and Communications (Department of Transport) pursuant to action taken on paras. 97 and 98 of the Twenty-third Report regarding purchase of unseaworthy vessel.

The additional information required by the Public Accounts Committee is given below seriatim:

(I) *A copy of the report of Superintending Engineer of Assam with the comments of the Ministry may be submitted.*

(1) A copy of the Enquiry Report of the Superintending Engineer, Southern Circle, Assam is attached (Annexure I).

(2) The enquiry held by the Superintending Engineer, Southern Assam Circle, was a departmental enquiry ordered by the Government of Assam in their memo. No. CF 18/7/48/4715-17, dated the 18th May, 1949. The necessity for the enquiry arose as in their Inspection Reports, the Mechanical Engineers of the Assam Public Works Department at Jorhat and Gauhati and the Ship Surveyor, Assam had reported some serious defects in the vessel. * * *

(3) This Ministry is of the view that it would not be correct to accept all that has been said in the Enquiry Report as it appears to be one-sided and so of doubtful validity. It would be more appropriate to consider and weigh together all the facts of the case **in order to arrive at a fair conclusion.** The main points arising out of the report which require consideration are—

- (i) whether the possibility of obtaining a suitable vessel from Disposals had been explored before Mr. ———'s recommendation for the purchase of the Z-72 craft of Mr. ——— was accepted;
- (ii) whether Mr. ——— arranged for the purchase of the vessel even before a careful survey;
- (iii) whether the vessel was in a seaworthy condition when she left Calcutta.

(4) These points are dealt with below seriatim:

- (i) The remark made in the concluding sentence of para. 3 of the Report that no proposal for any vessel from Disposals was put forward by Mr. ——— is based on incomplete information available to Superintending Engineer.

The complete facts as available from the records are stated below:—

The proposal of the Consulting Engineer (Roads) to authorise Mr. ——— to purchase the ferry steamer was referred

to the Ministry of Finance on 28th April, 1948. The Ministry of Finance consulted the Ministry of Industry and Supply on the 29th April, 1948. On the basis of discussions between the Under Secretary, Ministry of Transport and the Disposal authorities, the former reported that although none of the vessels with the Disposals was suitable, the Department of Supply opined that the actual purchase of the vessel should be handled by them. The Consulting Engineer (Roads), accepting the view of his office that the purchase was being made on behalf of the State Government, finally decided on the 11th May, 1948 that the money having been allotted for the work, the Engineers are responsible for spending it to the best advantage of public and ordered that the purchase should be finalised.

The responsibility for not routing the purchase through the Department of Supply is that of the then Consulting Engineer.

- (ii) A ferry steamer was required for a crucial point in the road transport arrangements of Assam which was regarded as most important and had been assigned top priority. Mr. ———, who possessed experience not only of Z craft but also of navigation on the Brahmaputra over a fairly long period and had also personal knowledge of crafts available for sale in Indian waters, was permitted to negotiate in collaboration with the Chief Engineer, Assam, the purchase of the Z Crafts of Mr. ——— and to arrange for crewing and equipping the craft for its journey to Assam. In May, 1948 it was suggested to the State Government that, in consultation with Mr. Oag, they should contact the Principal Engineer and Ship Surveyor at Calcutta for the necessary ship survey of the vessel proposed to be purchased. The vessel was first tested on the 15th June 1948 by Mr. Oag in conjunction with the Third Engineer and Ship Surveyor of the Mercantile Marine Department but only after completion of one run the engines gave trouble and the trials had to be abandoned. Mr. Oag, however, felt that the vessel could be made to give the mechanical efficiency desired and when this was completed and the Principal Engineer and Ship Surveyor granted a certificate he would recommend the purchase of the vessel. He requested the Principal Engineer and Ship Surveyor to undertake further trials and to advise the results thereof to the State Government. In his letter dated the 15th July, 1948, the Principal Engineer and Ship Surveyor informed the State Government that the hull and engine surveys had been completed. Neither it was stated that the hull and engines were found in sound condition nor was there any remark to the contrary. Certain equipment on board i.e. anchors, chains, fire extinguishers etc. did not comply with the requirements laid down under the Inland Steam Vessels Act and as the owner at the time of survey of the vessel was Mr. ——— a Survey

Certificate could not be issued until all the requirements were complied with. As the defects did not affect the seaworthiness of the craft, they were allowed to be rectified after the vessel had been taken over. A Survey Certificate from the Mercantile Marine Department was not obtained since the vessel now belonged to Government for which such a certificate was not required by law. In the circumstances, it would not appear correct to say that Mr. Oag arranged for the purchase of the vessel even before a careful survey.

- (iii) After carrying out the necessary inspection etc., the vessel was taken to Assam by river and it travelled a distance of eight hundred miles under its own power. It is evident that the vessel could not have performed this long journey, if there had been any serious major mechanical defects of the nature mentioned in the Enquiry Report, at the time of her departure.

(5) The Assam Government's conclusions in the matter are reproduced below:—

“There is little doubt that the vessel when finally accepted at Calcutta on the advice of the CWING was not in tip-top condition. It did run at the trials though after some adjustments and repairs to the engines and the dynamos and the pump etc. It also arrived at Goalpara on its own power, but not in a good condition and it broke down completely after 53 days service. It is possible that the crew engaged in Calcutta were not quite competent but our mechanic who escorted the vessel does not support the view that the vessel was run negligently. It is, however, possible that the Pakistani crew who did not like to serve further and started clamouring for more pay and higher allowances as soon as they reached Dhubri, might have mishandled the vessel during the 53 days of its glory, but this is at the best a surmise. After its 53 days service, we found that the engines had practically broken down and the propeller shafts worn dangerously loose in their bearings and no workshop or marine staff to handle the repairs.”

(6) The fact that the vessel proved to be a bad bargain is not disputed. There was, however, no undue haste or lack of care in regard to the selection and inspection etc. of the vessel. The failure of the vessel may be attributed mainly to the following factors and it would be hardly fair to apportion the blame on any particular officer or officers who acted in good faith in the procurement of the vessel in question :

- (i) that the vessel did not prove as good as was expected; and
- (ii) that it could not be maintained properly due to lack of experienced crew and proper workshop facilities for repairs etc.

(II) The break-up of the expenditure of Rs. 23,000 for conversion and overhauling the vessel and the date on which the expenditure was incurred.

A copy of voucher No. 41, dated the 23rd March, 1949 containing details of the expenditure of Rs. 22,343 incurred on making additions and alterations to the vessel before she left Calcutta is attached (Annexure I-A). It now transpires that the correct figure of expenditure is Rs. 22,343 and not Rs. 23,343 as mentioned in the Audit Report. The reason for this discrepancy is explained in the enclosed copy of Accountant General Assam's letter No. Rep. 3873, dated the 25th March, 1957 (Annexure II).

H. P. SINHA,
Consulting Engineer
(Road Dev.) and Joint Secy.

14th February 1958.

ANNEXURE I

Enquiry on Z-72 Craft Vessel at Goalpara for Goalpara-Jogighopa Ferry Service.

1. The Assam Government tentatively selected two vessels—one in Bombay and another in Calcutta, after calling for quotations and by negotiations and decided to purchase the vessel at Calcutta. When the financial sanction of the Consulting Engineer, Government of India was asked for, he referred the matter of Col. ———, the Director of Navigation CWINC for advice.

2. Col. ——— offered to help the Assam Government with an economical Vessel at a nominal cost from Disposals and the Consulting Engineer authorised Col. ——— to negotiate and purchase, a vessel on behalf of the Assam Government in collaboration with the Chief Engineer, Assam and in consultation with the Principal Engineer and Ship Surveyor, Government of India.

3. Col. ——— denounced the Assam Government's Bombay selection on the ground of delay in getting it and the Calcutta selection for its high power and consequent high running cost and suggested to purchase the Z-72 Craft belonging to ———, Zamindar of Comilla, lying in the Hoogly Dockyard. No proposal for any vessel from Disposals was put forward by him.

4. Col. ——— was asked by the Assam Government to carry out a joint inspection of both the vessels at Calcutta with the Assam Government's Trade Adviser, but he inspected the vessels himself alone and denounced the vessel selected by the Assam Government and recommended the purchase of Z-72 Craft of de-Louney, subject to final survey by the Principal Engineer and Ship Surveyor, Government of India.

5. Col. ——— and ——— came to Shillong and in a conference with the Chief Engineer settled up the negotiation at Rs. 1,60,000 but Mr. ——— stated that he had not been able to obtain the Survey Certificate from the Principal Engineer and Ship Surveyor (reason not stated), but Col. ——— undertook to arrange it.

6. Col. ——— inspected the vessel on 15th June, 1949 with the 3rd Officer of the Principal Engineer and Ship Surveyor's Department and after one hour's run the Engines defaulted and she had to be left anchored in a Buoy in the midstream, but the defects were considered by him to be minor, relating to circulating pump and lubrication, which could be repaired. He emphasised its purchase by further trials carried out by the Principal Engineer and Ship Surveyor if it was found satisfactory. In anticipation, however, he obtained an Estimate from the Hoogly Dock and Engineers Ltd. for carrying out certain additions and alterations like fitting up

drop gates, benches, chairs, bowls and providing latrines, costing about Rs. 13,739 and advised the Chief Engineer, Assam to accept it. There was no item for repairs to Engine, circulating pump and lubricating system.

7. The Chief Engineer, Assam pressed for the inspection report of the Principal Engineer and Ship Surveyor before he could commit. Lt. Commander ———, Principal Engineer and Chief Ship Surveyor inspected the Vessel on 15th July, 1948 and wrote to the Chief Engineer "The Hull and Engine Surveys of Z-Craft 72 are completed", but it was not stated if they were found in sound condition. He however found other fittings not conforming to the Indian Steam Vessels Act, 1917 and therefore, was not in a position to issue the certificate.

8. The Chief Engineer depended entirely on Col.'s ——— Officer to take over the Vessel in *good running order*. In the meantime, Col. ——— sent his recommendations for purchase of this Vessel to the Consulting Engineer and while the Chief Engineer, Assam was still insisting on "good running order" condition of the Vessel, both Col. ——— and the Consulting Engineer interpreted Lt. Commander ——— "The Hull and Engine Surveys of Z-Craft 72 completed" as amounting to "found satisfactory" and urged its purchase immediately and carry out additions and alterations after which the Survey Certificate would be forthcoming. Col. ——— further assured that deficiencies previously noticed would be remedied while carrying out alterations including any further that might be pointed out by the Principal Engineer and Chief Surveyor (at whose cost not mentioned). Col. ——— further advised purchase of two new Engines at Rs. 25,000 each if considered necessary for getting higher speed. This suggestion might have been dictated by a feeling that the existing machines were not quite upto the mark.

9. On this assurance, the Assam Government authorised Col. ——— to complete the deal and the Vessel was purchased, Phi. J. de Louney was paid Rs. 1,60,000.

10. After the deal was completed Col. ——— sent his Assistant to Calcutta to supervise carrying out additions and alterations in the Hoogly Dock Yard and recommended to Chief Engineer, Assam for acceptance, a further demand of Hoogly Dock and Engineering Co. Ltd.—for (i) Rs. 6,300 for dry docking, scaling and painting and stopping leakage to main deck shed, (ii) Rs. 1,185 for fitting up a Capstan, (iii) Rs. 200 for preparing a drawing for the vessel, (iv) Rs. 512 for repairs to Dynamos, (v) Rs. 4 per day as mooring charge. These demands were agreed to.

11. Mr. ——— was replaced by Mr. ——— after sometime. Col. ———, however, instructed his Assistant "trials should be carried out to ensure that the machinery found defective in the previous trials is now working efficiently, before the Vessel is handed over to the representative" of the Assam Government.

12. After the additions and alterations were carried out the Vessel was taken out for trials on several occasions and every time the

Engines, circulating pumps and the Dynamos gave troubles. The Trade Adviser reported "something or other in the ship is giving trouble one after the other".

13. When the Principal Engineer and Ship Surveyor was approached to Survey the Vessel, he refused to do so unless he was approached through the Ministry of Commerce, Government of India and stated that even if that was done, he could not arrange the survey before 3 to 4 weeks due to shortage of staff. Evidently the proposed survey was something quite different from what was done on 31st May 1948 at the personal request of Col. ——. This survey could not be arranged.

14. The Trade Adviser arranged the inspection of the Electrical installation by Messrs. ———. They found the prime Mover engine Crossley for the Generator very defective so as to require thorough overhaul and the distribution wirings also required renewal. They considered opening up of the Generator necessary but for want of spares for this type of machine dared not do it. They quoted for providing some additional fittings. The Chief Engineer, Assam did not want the additional fittings and did not say anything about other defects. It was urgent to get the Vessel to Assam as early as possible if she was otherwise all-right.

15. Capt. ——— Col.'s Assistant also experienced frequent troubles in Engines and wrote to the Chief Engineer, Assam on 14th January, 1949 through the Trade Adviser that he considered it advisable to have the Craft's Engines fully examined before departure by the Principal Engineer and Ship Surveyor and suggested writing or wiring to that officer directly.

The Chief Engineer, Assam wanted to know why this was not done before purchase of the Vessel and to this Capt. Basu's reply was that his Commission—CWINC—meaning Col. ——— was concerned to the limit of providing a suitable Craft in good and Seaworthy condition and nothing else.

No further action was taken Evidently Col. ——— or anybody else did not fully examine the Engines before purchase.

16. As the services of the Government Principal Engineer and Chief Ship Surveyor could not be arranged to make a full survey of the Vessel and the machineries, etc. the Trade Adviser obtained the services of Messrs. Lardner North & Co. ——— a private firm ——— to survey the ship and a fitness certificate was obtained from them. The certificate was issued on 28th February 1949 and the examination was carried out on 2nd February, 1949.

The Certificate states—"The Vessel's Engines had also been overhauled by Messrs. ———." but no such overhauling was done. In carrying out the test, the Engines were run at 6 miles per hour speed for a short length against the maximum speed of 11·8 miles. This was extraordinary, but yet the dynamo of the Port Engine became hot. The Engines of the Vessel are stated to have functioned normally, but without a trial at a greater speed. This remark has no value. The auxiliary Engine (Crossby) was found very noisy in operation. The Surveyors recommended a few more alterations and equipments like chains for anchors, Derrick, Dinghi and a better born.

But none of these defects were attended to before the Vessel left Calcutta.

17. The defects now noticed in the machineries could never have possibly developed on account of normal wear and tear due to the run from Calcutta to Assam. The defects were there before the purchase. Col. ——— himself noticed some of them but he minimised them, he never arranged a careful examination of the mechanical and Electrical side but was anxious for outside fittings and modification. He was anxious for immediate purchase even before a careful survey.

Not a single trial in Calcutta was successful and every time some trouble or other was noticed. Messrs. ——— found the Electrical Installation definitely defective and any Mechanic with a clear idea about Diesel Engines would have said the same thing about the main Engines of the Vessel, if he was asked to examine them. It is very likely that ——— could not get the Survey Certificate from the Principal Engineer and Ship Surveyor—as he stated in Shillong, perhaps, because of these defects, and though Col. ——— promised to get the Certificate he could not arrange it.

Within a few days of the purchase of the Vessel before she had performed any service Col. ——— agreed to get the Dynamos repaired at a cost of Rs. 512 charged not to the supplier of the defective vessel but to the Assam Government and yet the repairs carried out were not satisfactory, as within a few days after the Vessel had left Calcutta both the Dynamos again became totally unserviceable.

On the way from Calcutta to Assam, the Engines, the Circulating Pumps, the Lubricating system and the Dynamos gave the same troubles as were experienced in Calcutta.

18. The Assam Government depended entirely on Col. ——— considering him to be an expert and did not send their own Mechanical Engineer or Ship Surveyor to look into the machineries before purchase. The Divisional Mechanic was sent not to examine the machines but only to escort the Vessel. But Col. ——— appears to have had paid no careful attention to the examination of the machineries.

19. It may be pointed out that while this Craft cost the Government Rs. 1,60,000 to start with, the Assam Aviation and Transport Services Ltd., Gauhati purchased a similar Vessel (only difference being length—120' against Government Vessel—134') at Rs. 95,000 only, in a better perfectly nice condition.

20. When the Vessel reached Assam various defects were at once noticed and it was considered advisable not to ply her. She was however plied for ferry service between Goalpara and Jogighopa from 20th March, 1949 to 14th May, 1949 and was stopped on 15th May, 1949, i.e. counting from the date of starting from Calcutta, she was in service for 92 days only including the idle days for rest. She ran only 55 days with 3 trips per day for ferry service between Goalpara and Jogighopa when the daily average consumption of Diesel oil was 56.5 gallons and lubricating oil—4 gallons.

21. It is quite clear that the Engines, Dynamos and Circulating pumps of the Vessels were never in order before the purchase, and though Col. ——— was advised by the Consulting Engineer, Government of India to make the purchase in collaboration with the Chief Engineer, Assam and in consultation with the Principal Engineer and Ship Surveyor, Government of India, the Vessel and the Engines were never thoroughly examined and certified to be sound by the Principal Engineer and Ship Surveyor and he was never approached officially through proper channel. The Survey by ——— was only to make shift arrangement and the Engines were not properly tested even by a run at a high speed.

The various defects of Engines, etc. pointed out from time to time by the Trade Adviser, Mr. ———, Messrs. ——— and the Ship Surveyor ——— were never endeavoured to be set right before the Vessel left Calcutta for Assam.

22. The present position of the machineries is this:—

- (i) All the three Engines—Two main Thorny Croft and the prime mover Crossley have to be taken down and thoroughly overhauled. It may be necessary to replace the two main Engines, as was once suggested by Col. ——— @ Rs. 25,000 each. It is doubtful if spare parts for the Thorny Croft Engines are available in India.
- (ii) Both the Propeller Shaft assembly have to be taken out and repaired or replaced.
- (iii) Both the Circulating pumps have to be replaced.
- (iv) Both the Dynamos have to be rewound or their armatures replaced.
- (v) Additions and alterations carried by the Hoogly Dock and Engineering Co. are not very satisfactory.
 - (a) the drop gates are unusually unwieldy and special arrangements have to be made to handle them,
 - (b) Roof leaks to be stopped further,
 - (c) Bridge to be provided with protection,
 - (d) Scraping and painting of Hull to be redone.
- (vi) The whole Vessel is to be repainted.
- (vii) Anchors to be provided with chains.

23. It is not possible to carry out all the above repairs in Assam.

24. It will be better to requisition the services of an expert of Messrs. ———, or any other reputed firm other than Messrs. ———, to examine the Vessel thoroughly and advise. I would not advise asking the ——— to inspect the Vessel, for they might be anxious to whitewash their previous shortcomings. They may be called in after the inspection by an independent expert.

ANNEXURE I-A

GOVERNMENT OF ASSAM

PUBLIC WORKS DEPARTMENT AUDIT BRANCH

No. ADT.22/50/1552

Shillong, the 13th March, 1957.

From

The Chief Engineer, (R. & B.) Wing,
Public Works Department, Assam.

To

The Accountant General, Assam,
SHILLONG.

SUBJECT: *Break up of expenditure incurred on additions and alterations to "Z" craft.*

Reference: Your D.O. No. WM/8827, dated 29th January, 1957.
Sir,

With reference to your D.O. quoted above, I have the honour to say that from the books of the Executive Engineer, Goalpara Division, it appears that the expenditure of Rs. 22,343 was incurred and not Rs. 23,343. The Executive Engineer cannot reconcile the discrepancy of Rs. 1,000 which may perhaps be a typing mistake. However a copy of the bill of Messrs Hoogly Docking and Engineering Co. Ltd. amounting to Rs. 22,343 paid as per voucher No. 41 of March, 1949 duly attested by the Executive Engineer, Goalpara Division is enclosed herewith. The S. D. Number for the expenditure of Rs. 1,000 may kindly be intimated if possible to trace out the voucher.

Encls: copy of voucher No. 41.

Yours faithfully,

Sd./- G. C. SHARMAH,

for Chief Engineer, P.W.D., (R. & B) Wing, Assam

Memo. No. ADT.22/50/1553

Shillong, the 13th March, 1957.

Copy together with a copy of the bill of Messrs. Hoogly Docking Engineering Co. Ltd. amounting to Rs. 22,343 paid as per Vr. No. 41 of March, 1949 forwarded to the Consulting Engineer (Road Development) Government of India, Ministry of Transport (Roads Wing), Jamnagar House, Shahjehan Road, New Delhi-2 for information with reference to his letter No. WII-2/(6)54, dated 19th January, 1957 to the address of the Accountant General, Assam, Shillong.

Sd./- G. C. SHARMAH,

for Chief Engineer, P.W.D., (R & B) Wing, Assam.

Divl. Bill No. 357, dated 21-3-49.

Howrah 27-1-1947

The Director of Navigation,
Central Waterpower, Irrigation and Navigation Commission,
Government of India, New Delhi.

Ch. to 1—Purchasing one Ferry steamer for use in Goalpara Ferry crossing on
National Highway route No. 31/37.

Dr. to the Hooghly Docking and Engineering Co. Ltd.

O/N XX.5707	Letter Sp-15/1	31.8.48	Bill No. 8886
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Repairs to "Z" 72

	Rs.
1. Supplying and laying deck composition $1\frac{1}{2}$ " thick (Flantkeo, cement and sand) in way of proposed 2nd class Passenger accommodation at after end of main deck over an approximate area of 700 sq. ft. including boundary around this area and around all deck manholes in the form of $1\frac{1}{2}$ " \times $3/16$ " flat bars edge welded to deck, and making and fitting portable wood levelling chocks to cover all manholes within this area.	1750
2. Manufacturing, erecting and fitting out one port side and one starboard side latrine (Male and Female), fabricates, from M. S. Materials, situated at after end of main deck and complete with glazed earthenware squatting type W.C.S. cement floor, door with locking arrangements and flushing facilities from existing sanitary tank.	1706
3. Manufacturing and erecting benches 15" high for approximately 200 passengers consisting of flat iron frames welded to deck about 5 feet apart \times 15" high \times 12" wide with bolted open wooden runners laid across tops of frames secured trans versely by flat iron diagonal ties welded to deck.	1450
4. Manufacturing and fitting 4 Nos. motor loading ramps from 6" \times 3" 4 lbs. welded channel frames complete with 6" \times 2 $\frac{1}{2}$ " hard wooden open planking bolted and dowelled to frame top, including hinging, lifting and lowering arrangements by hand (2 Nos. ramps fitted to port and 2 nos. to starboard where indicated. Lifting and Lowering to be by two pairs of double—sheave rope blocks on each ramp).	6638
5. (a) Removing 3 Nos. cent line deck pillars and providing compensation stiffening in the form of deep bracket stays. (b) Removing 4 Nos. side stanchions in way of new ramp positions, and fitting additional deep bracket plates. (c) Providing compensating stiffening to deck and roof stringer angle for ramps.	450
5. Removing existing bow ramp from ship to shore.	55
7. Removing existing bridge platting at 1st class passenger deck level, retaining roof supports in way of same and making and fitting canvas dodgers screens in lieu of bridge plates	480
8. Fabricating and erecting one bow bulwark from M.S. materials, with bow anchoring facilities to include making and fitting suitable type hawse ring 1 deck stopper for anchor wire, removing existing stern anchor and receiving wire through suitable fairleads to existing deck winch and coiling into wire reel.	1050
9. Supplying and fitting on board 2 Nos. enamel bowles, one to each 1st class passenger w.c.	260
10. 12 Nos. solid wood seat straight back armless chair.	50
11. Painting all new erections Freeing one badly reated existing hand winch for in operating bow anchor, and removing guard rails in way of handle.	200

14089

	Rs.
12. Credit scrap value for 4 pes. <i>bulwark</i> plate bridge plating and old ramp.	350
As per our Tender No. HC/3581, dated 24.6.48 and your acceptance letter No. SP-15/1, dated 31.8.48	13739
Supplying and fitting one additional ring fairlead on bow bulwark to allow existing 2nd anchor (smaller) used, curving way projecting parts of ramps hinge side sockets to allow port and starboard anchors drawn up clear, supplying, fitting and welding two semi-circular nose plates on outside of bulwark in way of fairlead to give clear run for anchor wires.	420
Dismantling, curving way and removing ashore all main deck roof and supporting structure from 1 day forward of passenger space to bow, roof side stanchions cut about level of top hand rail posts and stabord and sharp corners of standing portions rounded off.	1100
Making and fitting roo'p canvas side screens round passenger accommodation on main deck and upper deck and canvas dodgers on navigation bridge complete with lashing arrangements, making and fitting all necessary extra stanchions, rails and jackstays for securing screens and degers.	2900
Extending galley funnel sufficiently to lead smoke over upper deck roofs.	160
Towing vessel from and to river moorings to and from dry dock making special arrangement of keel blocks and dry docking vessel for under-water examination and painting.	900
Scraping and thoroughly clearing exterior of hull upto runwale level, supplying and applying one heavy coat of tar still paint (same as previously supplied).	580
Making fitting pine wood ensing staff and jacks staff with necessary fixtures and complete with sheaves and hallyards.	180
Converting port side lavatory into a storeroom by making and fitting strong weedon shelves 2'-6" apart and 2'-0" deep.	250
Making up and supplying flexible filling pipe and funnel for use in filling starboard oil fuel tank from forward side of deck lavatory.	180
Sealing off leaks through main deck roof immediately forward of bridge.	90
Removing, overhauling and refitting fuel pump of auxiliary engine.	160
	20,659
Less by scrap value of roof structure removed under item 2	620
	20039
As per our tender No. ES/7128, dated 16.12.48.	
Disconnecting and lifting off capstan from existing position on boat deck and making deck good, fitting capstan on main deck forward in position pointed out and securely fastening with necessary chocks and fastening, supplying and fitting suitable stowages for capstan bars.	1185
Fitting and securing existing after wire reel in positing formerly occupied by capstan.	
Disconnecting 2 existing 5 tons crab winches and plugging bolt holes in deck (winches lifted on deck pending further instructions).	
Two existing wire reels fitted and secured on main deck forward in positions indicated.	
Rings or links suitable type supplied and fitted on deck as necessary to take snatch block for lead from caps tan to four ramps.	
Removing, recharging and refitting 2 batteries.	40

As per our tender No. Es./7128, dated 16-12-48 and your acceptance letter No. N-1(37) dated 20-12-48

Rs.

Mooring hire from 1st September, 1948 to 15th Novr.'48 and from 10th Decr. 1948 to 31st Jan/49 being 128 days (excluding passed in dry dock). @ Rs. 4/- per day

512

(Proportionate amount of Mooring hire paid by us to Calcutta port commissioners)

Removing 2 dynamos and 1 battery charging board to shops reminding armature and field coils of both dynamos, supplying and fitting new ball bearings and new carbonbrushed reinosulting brush gears etc. Repairing and overhauling batabrush gears etc. Repairing and overhauling battery charging board, refitting dynamos on board and testing part renewing port dynamos wiring and testing .

575

Total Rupees.

22351

(Rupees twenty two thousand three hundred and fifty one only)

Less credit note No. 8967, dated 21.2.49*

—Rs. 8

Rs. 22343

The Hooghly Docking and Engineering Co. Ltd.

Sd -

SUPERINTENDENT AND MANAGER.

True Copy

Certified corrected.

passed for Rupees twenty-two thousand three hundred forty-three only.

Sd./-

Director of Navigation,
Central Waterpower, Irrigation and
Navigation Commission.

Vr. No. 41 dated 23rd March, 1949.

pay by cheque Rs. 22,343 (Rupees twenty-two thousand three hundred and forty-three only.)

Sd./-

Sd./-

Accountant

Ex. Engr. Eastern Assam Divn.

Certified copy.

Sd./-

Ex. Engr. (W. A. Division).

True copy.

Sd./-

Executive Engineer,
Goalpara Division.

Copy

Credit Note.

Howrah 21-2-1949

Divl. Bill No. 358, dated 21-3-49.

The Director of Navigation,

Central Waterpower, Irrigation and Navigation Commission,
Govt. of India, New Delhi.

Dr. by the Hooghly Docking and Engineering Co. Ltd.

Order No. 5707

D/Note 8967.

Repairs to "Z" 72.

By deduction for 2 enamled bowls.

14" included under item 9A of our bills.

No. 8886, dated 27-1-49 but not supplied.

Rs. 8

(Rupees eight) only.

The Hooghly Docking and Engineering Co. Ltd.

Sd./-

Superintendent and Manager

True Copy

Sd./-

Executive Engineer
Goalpara Division.

ANNEXURE II

OFFICE OF THE ACCOUNTANT GENERAL, ASSAM

No. Rep.-3873.

Dated Shillong, the 25th March, 1957

From: The Accountant General, Assam,
(Report Section)

To

The Under Secretary to the Government of India
Ministry of Transport, Roads Wing,
Jamnagar House, Shahjehan Road,
NEW DELHI.

SUBJECT.—*Expenditure incurred on the repairs etc. of 'Z' Craft*

Sir,

In continuation of this office letter No. Rep-3374, dated the 7th February, 1957 on the subject indicated above, I have to invite a reference to the Chief Engineer, P.W.D. Assam's letter No. ADT.22/50/1552, dated the 13th March, 1957 regarding the break up of the expenditure on repairs etc. of the 'Z' craft before it left Calcutta. The expenditure of Rs. 23,343 (incurred in making additions and alterations to the vessel) mentioned in the draft para. was taken from the Superintending Engineer, Southern Circle, Assam's Report on an Inspection of the Office of the Executive Engineer, Western Assam Division for the year 1949-50 (a copy of which was forwarded to this office) in the absence of relevant records in this office which had been gutted by fire. As the P.W. Department cannot also at this distant date reconcile the figure which was taken from their Report, the discrepancy of Rs. 1,000 may under the circumstances be suitably explained in the revised note which the Ministry will now prepare. The Ministry's note dated the 24th November, 1956 may also kindly be recast on the basis of the particulars available from the bill of Messrs Hoogly Docking Engineering Co. Ltd., a copy of which is stated to have been forwarded to the Ministry by the Chief Engineer, Assam, *vide* his memo No. ADT.22/50/1553, dated the 13th March, 1957.

The revised note prepared by the Ministry in this regard for submission to the Public Accounts Committee may also kindly be got vetted by this office as suggested by the Accountant General, Central Revenues, New Delhi, in his U.N.O. No. RR.2-7/56-57, dated 13th December, 1956.

Yours faithfully,

Sd./-

Assistant Accountant Officer, Assam.

APPENDIX LVI

Note from the Ministry of Works, Housing and Supply pursuant to action taken on para. 32 of the Fifteenth Report regarding payment of railway freight

During the discussions of the Public Accounts Committee held on the 6th January, 1958, the question was raised whether in taking disciplinary action against the Officer, the fact that he was responsible for an excess payment of Rs. 3,175/1/- was also brought to the notice of Union Public Service Commission.

2. It was agreed at the discussion that a back reference should be made to the Union Public Service Commission appraising them of this irregularity committed by the Officer and seeking their advice as to whether punishment of warning already imposed by the Director General of Supplies and Disposals on the Officer was sufficient and whether this irregularity, if also taken into account, would justify his exoneration.

3. A further reference was accordingly made to the Union Public Service Commission by this Ministry on the 13th February, 1958 covering the above aspects.

4. In reply the Union Public Service Commission have stated that though the irregularity now pointed out did not form a charge against the Officer, the Commission had, during their examination of the case, taken due note of the fact that the displeasure of the Director General of Disposals had been communicated to him. They have also observed that as the Government were generally satisfied that the Officer had been sufficiently punished on this account, no fresh charge was framed against him, nor was this point specifically mentioned in the reference to the Commission earlier. In the circumstances the Commission have advised that they do not consider that any modification is called for on the advice already tendered by them on this case.

NEW DELHI;

The 10th April, 1958.

M. R. SACHDEV,
Secretary.

APPENDIX LVII

Note from the Ministry of Works, Housing and Supply pursuant to action taken on para. 138 of the Sixteenth Report regarding safeguarding clause in contracts

The P.A.C. in their meetings held on the 3rd, 4th and 5th January, 1958, desired that this Ministry should review the Standard Contract forms in use in the Supply Department because they were not happy that the penalty clause and the arbitration clause were effective for the purpose intended.

Ministry's reply:

The General Conditions of Contract governing D.G.S.&D. Supply Contracts are presently under revision in consultation with the Ministry of Law and the revised conditions are expected to be finalised after some time.

The penalty clause and the arbitration clause in these conditions have already been reviewed in the light of recommendations of the Stores Purchase Committee and the arbitration clause has been revised.

The penalty clause in the General Conditions of Contract provides as under:—

“Should the Contractor fail to deliver the stores or any consignment thereof, within the period prescribed for such delivery, the Secretary shall be entitled at his option to recover from the Contractor as agreed liquidated damages, and not by way of penalty, a sum of 2 per cent. of the price of any stores which the Contractor has failed to deliver as aforesaid, for each month or part of a month, during which the delivery of such stores may be in arrears”.

The Stores Purchase Committee stated that the criterion for levy of damages should be whether the consignee has suffered any inconvenience or loss, on account of delays in supply, or whether higher prices had to be paid to the supplier for earlier delivery. They recommended that the General Conditions of Contract should provide that the quantum of liquidated damages for delay in supply will not exceed 10 per cent. of the contract value. In important cases, it will be open to the purchase officer to include a special ‘damages clause’, if considered necessary.

The matter was examined in consultation with the Ministry of Law. The Solicitor General of India *inter alia* advised as follows:—

“My suggestion is that the general provision fixing 2 per cent. price progressively as compensation can be left as it is for the generality of contracts. Where, however, the contract is one which is not of the ordinary commercial nature

or deals with goods in respect of which damages for breach or delay would not possibly be or not likely to be ascertainable in the ordinary way, there should be a specific provision incorporated for liquidated damages appropriate to each case after calling the other party's specific attention to the necessity of such a provision. The present provision in the Conditions of Contract being incorporated in every contract, cannot be a genuine pre-estimate of damages. A genuine pre-estimate supposes that the parties have with the facts of a particular contract in mind, agreed to a particular sum as reasonable compensation. The very fact that a particular clause is incorporated automatically into every contract, in itself precludes its being treated as a genuine pre-estimate of damages. I have, therefore, suggested that in such cases as where such a pre-estimate is necessary, it should be arrived at independently and with the express consent of the other side, so as to constitute a proper pre-estimate. As to other contracts the general clause may be left since damages will always have to be proved.

I should add that the practice of charging 10 per cent. of 2 per cent. as token damages was not an unreasonable one".

For the generality of contract, the existing clause will continue to apply, but in deciding cases of liquidated damages, where there is no demonstrable actual loss on account of delay in supplies, as suggested by the Solicitor General, if liquidated damages are to be levied, these may be ordinarily limited to 10 per cent. of the liquidated damages leviable (at the rate of 2 per cent). It has accordingly been decided that it is not necessary to amend the existing clause in the General Conditions of Contract as it serves as a deterrent to prevent delays in supplies. Where, however, the contract is not of the ordinary commercial nature or deals with goods in respect of which damages for breach or delay would not possibly be or not likely to be ascertainable in the ordinary way, a specific provision for liquidated damages will be incorporated in the contract, after obtaining the express consent of the supplier to such a provision, so that it constitutes a proper pre-estimate of damages in case of delay in supplies.

As regards arbitration the position is that the General Conditions of Contract originally provided for reference of disputes arising out of contracts to the award of an arbitrator to be nominated by the purchaser and an arbitrator to be nominated by the contractor, or in case of the said arbitrators not agreeing them to the award of umpire to be appointed by the arbitrators in writing before proceeding on the reference. As this procedure was cumbersome and resulted in a long drawn out and prolonged process as would have been the case had the matter been referred to a court of Law, the clause was amended in consultation with the Ministries of Finance and Law to provide for sole arbitration by the D.G. (S.&D.) or his nominee. In practice, the sole arbitrator will be an officer of judicial standing. It has, however, been provided that the tenderer has the option to be exercised at the time of submitting his offer, not to accept this clause in which case disputes, if any, arising out of a contract will be subject to the ordinary course of law.

The final draft of the revision of Conditions of Contract is now under preparation and will be circulated to the major Indenting Departments for consideration before it is finally adopted.

II. Observation of the Public Accounts Committee.

An enquiry was also made by the P.A.C. as to the status of officers who were competent to change any conditions in the standard form.

Ministry's reply:

Government sanction is necessary for any change in the Conditions of Contract except in the following cases:—

- (a) Subject to the acceptance by the tenderer of the special clause (copy enclosed), the following officers of the Directorate General of Supplies and Disposals have been authorised to relax Clause II of W.S.B. 133 (General Conditions of Contract), Clause 15 of W.S.B. 134-A (Conditions governing contracts for Plant and Machinery) and Clause 10 of W.S.B. 149-A (Conditions governing contracts for Purchase and Erection of Structures) and to accept offers with unguaranteed delivery period as under:—

Cases where prices are firm:

- | | |
|-------------------------------|----------------------|
| (i) Deputy Director General. | .. upto Rs. 2 lakhs |
| (ii) Director General (S.&D.) | .. above Rs. 2 lakhs |

The above officers are required to obtain the concurrence of the Ministry of Finance, in cases where prices are firm and it is proposed to place a contract with unguaranteed delivery at a price which is lower than the offer with guaranteed delivery, or in cases where prices are subject to variation, before conclusion of contracts. Consultation with the Ministry of Law will also be necessary where the Director General (S.&D.) is compelled to accept the offer for unguaranteed delivery but the firm is not prepared to accept the above special clause.

- (b) About the transit insurance clause (reproduced below) the DGS&D have been authorised to decide in consultation with the Ministry of Finance on the merits of each case, whether to accept or reject the tenders where the tenderers do not agree to this clause. In the case of non-ferrous metals where a decision on the offers is generally taken within a very short time, the Purchase Officer, within whose powers of purchase the case falls, has been authorised to waive, with the approval of the next higher officer, transit insurance clause, if the tenderers do not agree to such a clause:

(Insurance clause—The purchaser will not pay separately for transit insurance and the supplier will be responsible until the entire stores contracted for arrive in good condition at the destination).

- (c) The existing arbitration clause provides for sole arbitration by the Director General of Supplies and Disposals or his nominee. In practice, the sole arbitrator is an officer of judicial standing of the Ministry of Law. It is, however, provided in the invitations to tender that the tenderer has the option to be exercised at the time of submitting his offer, not to accept this clause, in which case disputes, if any, arising out of a contract will be subject to the ordinary course of law. In such cases, the officers of the Directorate General of Supplies and Disposals are competent to include a condition in the contract to the effect that the contract is subject to the jurisdiction of Courts at the place from where the contract has issued.

The above note has been prepared by this Ministry in consultation with the Ministry of Finance.

NEW DELHI;

May 7, 1958.

M. R. SACHDEV,
Secretary.

Special Clause:

"For sub-clause (i) and (ii), paras 1 and 2 of sub-clause (iii) and sub-clause (iv) of clause 11 of the General Conditions of Conduct, From W.S.B. 133 the following clause shall be substituted, namely:—

"(i) The time for and the date of delivery of the various stores shall be deemed to be the mutually agreed period of reasonable time within which the contractor shall complete the delivery.

(ii) The contractor shall, when the stores are ready for submission for inspection and test, send a notice in writing to the Inspector specifying the particulars of the stores which he proposes to tender for inspection.

Any instruction to the contractor to retard the submission of the stores for inspection shall be given only by the Secretary and not the Inspector.

(iii) (a) If it appears to the contractor that delivery cannot be completed within the period specified in this A/T, he shall immediately apply in writing to the Secretary for an extension of the delivery period stating the reasons for non-completion of delivery within the stipulated period, and shall endorse a copy of the application to the Inspector.

(b) If upon receiving such application and considering the cause therein stated, the Secretary be satisfied that reasonable ground exists for an extension of time (and his decision shall be final), he may allow such additional time for delivery as he considers to be justified by the circumstances of the case :

Provided that any failure or delay on the part of a sub-contractor shall not be admitted as a reasonable ground for extension of time through the employment of such sub-contractor may have been permitted by the Secretary.

(iv) If the contractor fails to deliver the stores or any instalment thereof (where delivery by instalments is stipulated in the A/T), within the period specified in the A/T for such delivery or such extended period as may have been allowed under sub-clause (iii) of this clause, the Secretary shall be entitled at his option, either—

(a) to recover from the contractor as agreed liquidated damages, and not by way of penalty, a sum of 2 per cent. of the price of any stores which the contractor has failed to deliver as aforesaid, for each month or part of a month during which the delivery of such stores has been in arrears, or

(b) (i) to serve a notice in writing on the contractor fixing a further period of time within which, in the opinion of the Secretary, (which shall be final) the stores or any instalment or portion thereof remaining undelivered and intimating that the period of

time so fixed shall be of the essence of the contract, and that if the contractor shall make default in completing the delivery as required, the contractor or the portion thereof as the case may be, shall be cancelled and the stores shall be purchased at the risk and cost of the contractor, and

- (ii) upon occurrence of default in delivery by the end of the period fixed in such notice, to cancel the contract or a portion thereof as the case may be and, if so desired, to purchase the stores or authorise their purchase at the risk and cost of the contractor.
- (v) In the event of action being taken under para (b)(ii) of sub-clause (iv) of this clause the contractor shall be liable for any loss which the purchaser may sustain on that account, provided that the purchase, or, if there is an agreement to purchase, then such agreement is made within 6 months of the date of such failure, but the contractor shall not be entitled to any gain on such purchase. The manner and method of such purchase shall be in the entire discretion of the Secretary, whose decision shall be final. It shall not be necessary for the Secretary to serve a notice of such re-purchase on the contractor:

Provided that the right to purchase the store at the risk and cost of the contractor shall not prejudice the right of the purchaser to recover damages for breach of the contract by the contractor.

Please note that para. 3 of sub-clause (iii) and sub-clause (v) of the said clause 11 continue to be applicable to this A/T".

APPENDIX LVIII

Note from the Ministry of Law pursuant to action taken on paras 115—117 of the Twenty-third Report regarding extra expenditure on U.S. Stores and conflicting legal opinion.

In paragraph 115 of the Report, the Public Accounts Committee have drawn attention to the inordinate delay at each stage in the handling of a certain case in the Director General of Supplies and Disposals and, in particular, the delays in the process of obtaining legal opinion from the Law Ministry. At the initial stage during the latter half of 1950 when the legal aspect was under scrutiny, the delay was due to some extent to the Department not furnishing a clear and full statement of facts and the material documents (originals or copies). This is a common source of delay in many cases and can be avoided if the referring departments follow the standing instructions carefully.

2. The Public Accounts Committee refer to a delay of 14 months in 1951-52, but this did not occur in the Law Ministry. The Solicitor to the Government of India having advised on 10th January, 1951 that Government had a good case for claiming the difference from the defaulting firm, the department could well have pressed with the claim and brought it to arbitration then and there. Instead, it sent to the Law Ministry 15 months later, on 18th April, 1952, a statement of case prepared by its special solicitor (who incidentally was not an officer of this Ministry) for obtaining the opinion of the Attorney-General. It appears from the record that the file remained with the special solicitor for over one year from 30th March, 1951 to 18th April, 1952 for the preparation of this statement of case. This delay would have been avoided if the department had asked the Solicitor in this Ministry to obtain the further opinion of the Attorney-General in the matter. The practice of having a special legal adviser of its own within the department sometimes led to delays on account of differences of opinion between that legal adviser and the law officers of this Ministry and was therefore abandoned sometime ago by the Directorate General of Supplies and Disposals.

3. In paragraphs 116 and 117 of the Report, the Public Accounts Committee refer to the conflicting opinions expressed by the officers of this Ministry. Considering that conflicting decisions on the same legal point are given by different High Court's and even the Supreme Court has been known to revise its previous decision, it is not strange that differences arise in difficult and complicated matters. So far as this Ministry is concerned, it does sometimes happen, as in the particular case under discussion, that all the relevant facts are not placed before the law officer in the first instance, but are brought to his notice after he has expressed an opinion. In such cases it may become necessary for that officer or his senior to revise the opinion

previously given. It does not seem possible to find any workable method by which we could guarantee that the opinions expressed by the numerous law officers in the Ministry of varying seniority and experience would never be conflicting.

NEW DELHI;
The 27th May, 1957.

B. N. LOKUR,
Joint Secretary.

APPENDIX LIX

Note from the Ministry of Works, Housing and Supply pursuant to action taken on paras 115—117 of the Twenty-third Report regarding extra expenditure on U.S. Stores and conflicting legal opinion.

The following views are offered on the note furnished by the Ministry of Law in respect of Paragraphs 115 to 117 of the 23rd Report of the Public Accounts Committee.

2. The statement that the DGS&D had failed to furnish a clear and full statement of facts and material documents in the initial stages during latter half of 1950, when the legal aspect was under scrutiny, cannot be denied, as in the original reference made to the Law Ministry in June, 1950, unfortunately the full facts of the case were not made available to that Ministry. Subsequently, however, such facts were made available by 1st September, 1950 on the basis of which, the Ministry of Law gave their final advice on 10th January, 1951 that our claim could be referred to arbitration.

3. In the light of this case, instructions have since issued that whenever a case is submitted for legal advice, a clear and full statement of facts with material documents relevant to the issue, on which advice is required, should be furnished to the Ministry of Law. The Ministry of Law in turn have been requested to bring to notice any case which, in their opinion, has not been properly presented to them, so that necessary corrective action can be taken.

4. The statement in paragraph 2 of the Ministry of Law note that the DGS&D had not pressed the claim in terms of advice given by the Law Ministry on 10th January, 1951 then and there, though correct, does not give a complete picture of the action taken within the DGS&D. What actually happened was that on receipt of the case on 10th January, 1951 (received in the DGS&D on 15th January, 1951, from Finance) before invoking the arbitration clause, the DGS&D wrote to the firm making a formal demand for recovery of the amount on 6th February, 1951. Simultaneously, they initiated enquiries to determine whether any amounts were lying to the credit of the firm, so that the same could be adjusted against the Government claim. The firm refuted the Government's claim in a communication dated 26th March, 1951. Meanwhile, in anticipation of this, the DGS&D had already taken steps to refer the case to Arbitration by transferring the relative files to the Arbitration Cell within the DGS&D on 19th March, 1951, so that necessary action to make a reference to arbitration, including issue of notice and appointment of Government arbitrator, could be taken. It was at this stage that the Spl. Solicitor, who at that time was automatically appointed as Government arbitrator, suggested the appointment of another person as arbitrator on behalf of Government in his place on the ground that

he had expressed an opinion on the case already, which was in conflict with the views expressed by the Ministry of Law, on the basis of which a reference was being made to arbitration. It was under these circumstances that the D.G., to whom the case was put up, directed that as the case was of sufficient importance, a reference to the Attorney-General would be justified, before pursuing the claim in arbitration. Prompt action was, therefore, taken on receipt of the advice of the Ministry of Law on 10th January, 1951 to pursue the claim, but ultimately for reasons stated above, the actual reference to arbitration was not made as the administrative authority considered it necessary in these circumstances to obtain the further opinion of the Attorney General.

5. It may be stated that the circumstances which gave rise to such a decision, arose primarily because the Dept. had its own Solicitor, who ordinarily was automatically appointed as Government arbitrator whenever claims were referred to arbitration. As in this particular case he had expressed a definite opinion on the case, which was at variance with the views expressed by the Law Ministry, it was only proper on his part to point out that it would not be correct to appoint him as arbitrator in these circumstances. Such a situation is not likely to arise again as the practice of DGS&D having its own Solicitor is no longer followed and as in any case, the officer appointed as arbitrator on behalf of Government would not be associated with the consideration of the case before a decision is taken to refer the matter to arbitration.

NEW DELHI;

The 23rd July, 1957.

M. R. SACHDEV,
Secretary.

APPENDIX LX

Statement giving comments of Lok Sabha Secretariat on replies of Ministries of Law and Works, Housing and Supply regarding extra expenditure on U.S. Stores and conflicting legal opinion

Points raised	Reply of the Ministry	Comments of this Secretariat
1	2	3
<p>1. Why were not all the facts of the case brought to the notice of the Law Ministry in June, 1950 itself when the case was referred to that Ministry for opinion? By whom was the statement of the case prepared in September, 1950?</p>	<p>1. The officer concerned who submitted the case for consideration did not appreciate that any legal aspects were involved as in submitting the case it had been suggested that the recovery of the extra cost incurred on re-purchase should be waived on the grounds that devaluation had intervened. In fact the initial reference to the Special Solicitor to the Ministry of W.H.&S. was made directly by the Ministry of Finance, who desired to have his advice before agreeing to the proposal submitted by the administrative authorities. The special Solicitor expressed his opinion and referred the case to the Ministry of Law for confirmation of his views which was given on the basis of the facts stated in the Special Solicitor's opinion. But when the opinion of the Ministry of Law was shown to the Ministry of Finance, they for the first time stated that the tender of William Jacks was subject to exchange variation and referred the case back to the Special Solicitor of the D.G.S. & D. for reconsideration. On receiving his opinion, the Ministry of Finance again sought confirmation of his views from the Solicitor to the Government of India, who thereupon required information and clarification on certain points which was furnished by the Ministry of Finance. On receiving the case back, the Solicitor to the Government of India found difficulty in tracing the tenders and other relevant documents and he therefore made a request for flagging them and also raised</p>	<p>1. The W.H.&S. Ministry have stated that the initial reference to the Solicitor of the Ministry of W.H.&S. in June 1950 was made by the Ministry of Finance. If so the Finance Ministry must have either shown the reference to the Ministry of W.H.&S. or must have been submitted it through that Ministry to the special Solicitor. In that case, the Ministry of W.H. & S. could have pointed out that the case did not contain full facts. Again on the second occasion when the case was referred to the special Solicitor to the D.G.S. & D. by Finance, the latter did not either consult or route the case, through W.H.&S. It was only when the Law Ministry found it difficult to trace the relevant papers, that the file was sent to W.H. & S. for flagging the papers.</p>

certain further queries. The Ministry of Finance obtained the information from and had the documents flagged by the D.G.S.&D. and then forwarded the case in September, 1950 to the Solicitor for opinion.

2. The opinion of the Law Ministry was received in the D.G.S.&D. on 15-1-51. Why was the reference to the firm making a formal demand for recovery of the amount made on 6-2-51 i.e. after three weeks? Was there any need for such a reference?
2. It is true that whilst the opinion of the Law Ministry was received in the D.G.S.&D. on 15-1-1951, the formal demand of the amount issued only on 6-2-1951. The time taken to issue this letter cannot be considered unreasonable as, the form of letter had to be approved by the Legal Adviser to the D.G.S.&D. and their accredited Finance before it could issue. It is the usual practice that before referring such a case to arbitration, that a formal demand for payment should be made on the firm. Reference to arbitration is thereafter resorted to as soon as it is clear that the firm have no intention of complying with the demand.
2. The Ministry have stated that the time of three weeks was not unreasonable as the form of letter had to be approved by the D.G.S.&D. and their accredited Finance. The contention of the Ministry may be accepted and we may not press this point.
3. After writing to the firm as above, why were not steps taken simultaneously to refer the case to arbitration by transferring the files to the arbitration cell instead of waiting till the 19th March, 1951 that is more than two months?
3. It is not usual to take steps simultaneously, when making a demand on the firm for the amount involved, to refer the case for arbitration as a reasonable time is allowed for the firm to comply with the demand in which case reference to arbitration should not arise. In this particular case, not only was the demand made on the firm but enquiries were also issued to various other authorities to determine whether the amount involved could be recovered from any of the firm's outstanding bills or security deposits etc. before invoking the arbitration clause of the General Conditions of Contract. Had the amounts been available such amounts would have been adjusted and instead of Government referring the case to arbitration, it would then have been for the firm to do so.
3. Even if we accept that formal demand on the firm was to be made before referring the matter to Arbitration, the period of more than 2 months does not seem to be justifiable particularly when the Ministry had no reasonable grounds to believe that the claim of the Government would be accepted.
4. What were the reasons for the inordinate delay of more than one year i.e. from 19-3-51 to 18-4-52 in sending the file to the Law Ministry
4. There appears to be no reason for the inordinate delay of more than one year in sending the file to the Law Ministry for reference to the Attorney General. The fact is that the officer,
4. The Ministry have admitted that there does not appear to be any reason for the inordinate delay of more than one year

again for reference to the Attorney General?

who was required to obtain the views of the Attorney General retained the case with him for this period, possibly because he wished to prepare the brief as carefully as possible after consulting the different authorities in the matter in the light of the complicated nature of the case.

in sending the file to the Law Ministry. The defence given by the Ministry that the Office was required to obtain the view of the Attorney General retained the file with him because he wished to prepare the brief as carefully as possible seems to be too feeble as the period of delay viz. one year, is too long for the purpose.

5. Whether the existence/continuance of the post of a Special Solicitor in a Ministry like the Works. Housing and Supply will not be conducive to legal advice being available at hand.

5. Under the arrangements which now exist, a self-contained section of the Advice Branch of the Ministry of Law is located in the same premises as the DGS&D, which ensures that legal advice is always available at hand. These arrangements, it is considered, are satisfactory and preferable to the existence of continuance of a post of Special Solicitor in this Ministry. It is after all desirable that the Ministry of Law, as the authority concerned should exercise these functions to ensure co-ordination and proper advice. In fact the Ministry of Law have strengthened the Advice Section attached to this Ministry by posting a Deputy Secretary and two Under Secretaries to attend to all cases relating this Ministry.

5. The Ministry have given the arrangements now existing and said that these arrangements are satisfactory.

6. Whether it will not result in expeditious action if the Ministry of Works. Housing and Supply could approach the Attorney General direct in cases where the Ministry desired a second opinion on legal advice so tendered?

6. It is not considered desirable that this Ministry should approach the Attorney General direct in cases where the Ministry desires a second opinion on legal advice tendered by officials of the Ministry of Law. It is only the officers of the Ministry of Law, who can prepare a proper statement of case based on the facts furnished by the administrative Ministry and their expert knowledge of the legal aspects involved, where the opinion of the Attorney General is required. For example, in the particular case which has given rise to these queries, had the case been handled by Officers of the Law Ministry from the very beginning instead of by the Special Solicitor in this Ministry not under the control of the Law Ministry the case may not have developed as it did.

6. The Ministry have not understood our point. The legal opinion is given by the cell which is manned by officers of the Law Ministry vide previous para. If so, it is not clear why the W.H.&S. should not approach the Attorney General direct in cases where a second legal opinion is considered necessary. The Law officers in the "cell" in the DGS&D, being officers of the Law Ministry, can prepare the case properly.

MINISTRY OF LAW

Query of this Secretariat	Reply of the Ministry of Law	Comments of this Secretariat.
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The Solicitor to the Government of India advised on 10-1-51 that Government had a case for claiming the difference from the defaulting firm. The case was again referred to the Law Ministry after 15 months for obtaining the opinion of the Attorney General. The earlier opinion of the Law Ministry was reversed and it was also suggested that there was no need to consult the Attorney General. What were the new factors that led to the reversal of the earlier opinion?

7. The opinion dated 10-1-51 given by the Solicitor to the Government of India was based on the statement in the earlier note of the Ministry of Finance that even if the order had been placed on William Jacks & Co., before 18-9-49 the supplies could not have been made before devaluation occurred and the prices payable would in any case, have increased on account of devaluation. But in the Statement of case sent by the Special Solicitor of the D.G.S. & D. in April, 1952 it was stated that in the tender of William Jacks & Co., it had been stipulated that if there is any fluctuation in the dollar exchange between the time of tender and until the import licence was granted, such fluctuations will be to the account of Government, but after the import licence is received, the dollar exchange will be firm. The question therefore arose whether, if the tender had been accepted promptly, could not the import licence be issued before the date of devaluation, i.e. 18th September, 1949, and, if it could have been, whether the defaulting contractor could not then contend with force that the extra expenditure resulted from the delay on the part of Government. The Ministry of Finance, who were requested to comment on this point, stated that though, as departmental practices actually were, much more than 10 days would have been spent in issuing an import licence, it is quite possible to argue that there was nothing inherent in the actual process of recommending a licence and consideration of the application with the recommendation and grant of the licence which should make it take 10 days or more. This Ministry considered that as tenders were opened on 8th August, 1949, if Government had concluded a contract within the time available before the date of devaluation, the price would have become firm. This factor seemed to weaken the case and accordingly it was advised that the matter need not be pursued further.

7. The reply of the Ministry of Law emphasises the point that the reversal of the earlier opinion was due to the fact that the Statement of facts by the Ministry of Finance and later on by the Special Solicitor to D.G.S. & D. gave varying facts. This puts the responsibility of giving the conflicting opinion squarely on the Ministry of W.H. & S.

It is, however, for consideration whether it was proper for the Law Ministry to proceed to give opinion on a case without satisfying members whether all the facts have been made available to them.

Query of this Secretariat	Reply of the Ministry of Law	Comments of this Secretariat
<p>8. It has been stated that in this particular case, delay was due to some extent to the department not furnishing the clear and full statement of facts and the material documents. It has been added that this is a common source of delay which can be avoided if the referring department follow the standing orders carefully. In this case did the Law Ministry satisfy whether all the facts and material documents were placed before them in September, 1950 and again in April, 1952? When the case was again re-opened in October, 1952, the Attorney General gave his opinion in November, 1953 reversing the opinion given by the Law Ministry given in May, 1952. Were there any material facts in October, 1952 which were not brought to notice of the Law Ministry earlier?</p>	<p>8. Except as stated above, all facts and material documents were placed before this Ministry in September, 1950, and in April, 1952. There were no new material facts before the Solicitor General, which had not been brought to the notice of this Ministry earlier. It may be mentioned that the opinion in this case was not given by the Attorney-General but by the Solicitor-General.</p>	<p>8. It may be noted that on identical facts, the Solicitor-General gave an opinion diametrically opposite to that given by Law Ministry earlier.</p>

APPENDIX LXI

Note from the Ministry of Works, Housing and Supply pursuant to action taken on para 138 of the Twenty-third Report regarding cases in which lowest tenders were not accepted by the I.S.D., London.

In para 138 of their 23rd Report (Volume 1) the Public Accounts Committee have observed as follows:—

“The Committee believe that arrangements already exist in the India Store Department, London, and elsewhere for keeping a check on the progress of deliveries and on the due compliance of certain conditions, especially in cases where, because of those conditions the contract has been given to a higher tenderer in preference to a lower acceptable tenderer. It should be noted here that action to lodge a claim has been taken in this case only after an enquiry was made by the Lok Sabha Secretariat. The Committee would suggest that an enquiry which would examine this aspect and which would lead to the devising of measures to remove any existing defects in the present machinery would be worthwhile.”

2. The India Store Department, London and the India Supply Mission, Washington, were asked on 3rd May, 1957 to carry out a review of such cases covering the past three years and it appears from the latter's reply that they had no cases of the type, which form the subject matter of the present review. The India Store Department have, however, stated that they had 33 cases, where higher prices were paid, and there has been some delay in taking up the issue with the firms in four cases, out of which three cases now await finalization. These cases are also being vigorously pursued by them. The India Store Department have attributed the delay to pre-occupation of officers with current work and progressing of very important contracts. They have, however, observed that cases of this nature take considerable time before they are finalized. When a claim is preferred in such a case there is considerable resistance from the firm as they consider it a sort of “penalty”. Arguments are advanced which are not in many cases very cogent. Then a protracted correspondence ensues and consultations are held with the Financial and Legal Advisers. Legal action in such cases however, is as a rule not considered feasible or practicable, in view of the need for maintaining future good relations and, therefore, every effort is made to secure an amicable settlement. This takes time: replies and rejoinders are received, involving arguments over causes like delay in inspection, in approval of drawings and force majeure which might have operated, and over which there is a difference of opinion between the Department and the firm. These

points have to be carefully examined from the financial, legal and administrative angles and every effort is made to settle the matter amicably.

3. Notwithstanding the difficulties pointed out above the India Store Department have been asked on 13th September, 1957 (copy enclosed) to take prompt action for preference of claims and recovery of extra charges where "Higher Price Note" is included in contracts, soon after the supplies are completed, and it transpires that the firm have delayed supplies. Certain subsidiary instructions were issued on 10th July, 1957, (copy enclosed) by the India Store Department, laying down a drill to be followed in such cases. These instructions were, however, considered inadequate, from a legal angle, by Audit. The matter has now been examined in consultation with the Ministry of Law and a revised set of instructions issued on 15th January, 1958, (copy enclosed) to the India Store Department. Similar instructions have also been issued to the India Supply Mission. These instructions are considered satisfactory and it is hoped, will achieve the objective in view.

Dated New Delhi, the 25th March, 1958.

M. R. SACHDEV,
Secretary.

Copy of letter No. P.II.4(1)/55, dated the 13th September, 1957 from the Ministry of Works, Housing and Supply to the Director General, India Store Department, London, etc.

Subject:—Public Accounts Committee's 23rd Report (Volume 1) Paras 136—138, regarding statement of cases in which lowest tenders were not accepted by the India Store Department, London.

I am directed to refer to your letter No. S204/53.Vol.III/SB, dated 20th August, 1957, on the above subject, and to say that while this Ministry appreciate the various considerations, viz., administrative, legal, financial and business relations, involved in recovery of extra charges, in cases where "Higher Price Note" is included in contracts, we feel that there should be the least possible delay in taking up the issue with the firms, after the deliveries are completed, and it transpires that the firms have not adhered to the delivery schedule.

2. In the four cases mentioned in para 1 of your letter, it appears that there was considerable delay in taking up the matter with the firms and the ultimate progressing of recoveries. Since one of these cases has already attracted the attention of the Public Accounts Committee, we would reiterate the necessity for finalising these cases with the least possible delay. It is also requested that monthly progress reports may be sent to us till the cases are finally settled.

3. It is noted that "Higher Price Note" is included, as a rule, by the Mission in all the contracts, save in cases, where the firms are not agreeable to its inclusion and the merits and circumstances of the case do not warrant such action.

4. The instructions laid down by the Mission (as contained in their Office Memorandum No. 56/57, dated 10th July, 1957) appear to be in order, but we would request for its rigid compliance both in letter and spirit.

5. On reconsideration, this Ministry also do not intend to interfere with powers already available to you (under Rules 25 and 32 of India Store Department Rules of Policy and Procedure) to waive recoveries of extra charges (in cases where "Higher Price Note" is included) and liquidated damages, but we would request that these powers should be exercised with discretion, and in such a manner, that your actions could be justified subsequently.

INDIA STORE DEPARTMENT

OFFICE MEMORANDUM

No. 56/57

Watching of delivery period where lowest tenders are not accepted

Attention of all officers is drawn to Office Memorandum No. 53/54, dated 11th August, 1954. Whenever contracts are placed at a higher price for quicker delivery, Supply Officers are responsible for ensuring that deliveries are carefully watched. In the event of failure to complete supply within the delivery period, firms concerned should be asked to refund the difference between the contract rate and the lowest acceptable offer. This claim should be pursued independently of any which may be preferred on account of liquidated damages. The Legal Adviser should invariably be consulted if a controversial point arises.

For watching progress of such cases, a register with columns as stated below should be maintained by all Branches and any delays, which may occur in delivery should be reported to the Director without delay. It is emphasised that no supply file should be put away until all sums due to Government are either recovered from the contractor or delay in delivery is condoned by the competent authority.

Contract No.	Description of Stores	Name of Contractor	Amount	Lowest Tender	Delivery promised	Delay in delivery	Remarks (indicating progressing action taken)
_____	_____	_____	_____	_____	_____	_____	_____

(Sd.) A. S. GILL,
Maj
Director of Purchase

The 10th July, 1957.

Copy of letter No. PII-1(5)/55, dated the 15th January, 1958 from the Ministry of Works, Housing and Supply to the Director General, India Store Department, London, W.C. etc.

Subject:—Public Accounts Committee's 23rd Report (Vol. I) Paras 136—138, regarding statement of cases in which lowest tenders were not accepted by the India Store Department, London.

I am directed to refer to your letter No. S.83/1/1/57.ASG/SB, dated 13th December, 1957, on the above subject, and to say that

the matter has been examined in consultation with the Ministry of Law and the following decisions have been taken:—

- (i) A general clause similar to the one described in D.G. (S&D)'s Office Order dated 4th September, 1954 should be inserted by the India Store Department only in such tenders where it is known that delivery is of prime importance and the indenter has expressed his urgent need for the stores. Such a clause will, however, not be inserted in single tender cases.
- (ii) The Special Price Clause as described in para 1 of their letter, quoted above, should continue to be inserted in the Acceptance of Tenders.

As for obtaining a certificate as an additional safeguard, the Ministry of Law have observed that there is no contract until the certificate is signed, and in any case, it would not be quite in consonance with the English Law. It is, therefore, desirable that the prior acceptance of the supplier is obtained before a higher price note clause is included in the contracts. India Store Department should, therefore, try to obtain such acceptance in all such cases, as far as possible, and certificate, as suggested by them, should be resorted to only in cases, where it is considered that the matter would otherwise be delayed and the tender would lapse.

2. In this connection a copy of note dated 21st December, 1957 recorded in the Ministry of Law is also enclosed.

3. Three copies of the office order issued in the matter may be endorsed to this Ministry in due course.

INDIA STORE DEPARTMENT

OFFICE MEMORANDUM

No. 53/54

11th August, 1954

The following instructions issued under cover of the Ministry of Works, Housing and Supply letter No. PII-231(3), dated 11th May, 1954 is reproduced below for strict compliance. The Supply Branches may please note that the penalty clause (Clause 7 of I.S.D., Standard Conditions of Contract) should in no case be waived when higher prices have been paid for earlier deliveries:—

“Subject:—Imposition of penalty for failure of contractors to supply stores on or by the date specified in the contract.

In all cases where it is decided to accept a higher price than the lowest tender in the interests of earlier delivery, the following clause should henceforth be inserted in the relevant Acceptance of Tender:—

“Special Instructions”

It should be noted that on the assurance of the earlier delivery offered by you, this contract has been placed on you in preference to the lowest acceptable offer. In case of failure to complete supplies against this contract in terms hereof within the date of delivery specified herein, you would be liable to pay to government the difference between the contract rate and that of the lowest acceptable tenderer, i.e., £ per unit. This is without prejudice to the rights of the Government to recover all other losses and damages resulting from delayed supplies including the right of cancellation and repurchase at your risk and expense”.

(Sd.) K. B. RAO,

*Director General,
India Store Department.*

APPENDIX LXII

No. F.1-13/57-M.A.

New Delhi, Dated the 19th February, 1958.

Note from the Ministry of Food and Agriculture (Department of Agriculture) giving in detail how the price of fertilisers that were distributed to the cultivators was worked out under para 86 of the Twenty-third Report regarding Reserve Pool of Fertilisers.

The Ministry of Food and Agriculture is running a State Trading Scheme on "no profit no loss basis" for the purchase and distribution of chemical fertilisers with a view to popularising their use and making them available to the cultivators at reasonable rates in the interest of maximising agricultural production. The requirements of State Governments as well as other interests for fertilisers are first collected and the excess demand over availability from estimated production in the country, is calculated. The procurement of the deficit is arranged through the Ministry of Works, Housing and Supply on global basis. The Fertilisers from all sources are pooled together and sold at a uniform rate throughout the country. Of the chemical fertilisers handled by the pool, Sulphate of Ammonia is the only one produced in the country so far and is very popular with and largely used by the cultivators. The method of fixing pool price for Sulphate of Ammonia and other fertilisers is the same.

2. The main items which are taken into account while fixing the uniform price are as follows:—

- (i) The purchase costs of the material from various sources, (internal as well as external).
- (ii) Handling charges at the ports.
- (iii) Departmental charges levied by the purchasing organisations.
- (iv) Indirect charges incurred by the Ministry (namely interest on capital and salary of staff employed at the centre and the ports for running the fertiliser pool).
- (v) Internal transport charges based on average freight paid during the previous years from the sources of supply to various centres.
- (vi) In addition to the above usual items a further *ad hoc* provision was made in 1957-58 to cover an unusual expenditure necessitated by the closure of the Suez Canal, such as demurrage, diversion, shortage, storage, rebagging etc. charges.

3. After arriving at a tentative pool price, the price at which it would be economical to the cultivator is also investigated in con-

sultation with the Statistical and Economic Adviser to the Ministry of Food and Agriculture. The final Pool price is then fixed with suitable adjustments with the approval of the Ministry of Finance. Accordingly the pool price of Sulphate of Ammonia for 1957-58 was fixed at Rs. 350 per ton to States effective from 26th March, 1957. The State Governments are allowed to add a maximum of Rs. 30 per ton, over the Central Pool price, to meet their handling and distribution expenses.

The attached statement illustrates the basis on which the pool price of Sulphate of Ammonia was fixed for the year 1957-58 effective from 26th March, 1957.

This note has been seen by the Director of Commercial Audit.

T. C. PURI,
Joint Secretary.

GOVERNMENT OF INDIA
MINISTRY OF FOOD AND AGRICULTURE
(Department of Agriculture)

Statement showing the basis on which pool price of Sulphate of Ammonia for the year 1957-58 (January 1957 to March, 1958) was fixed.

	Rs.
1. Purchase price.	
(a) Indigenous Production 4,82,000 tons.	13,71,35,000
(b) Imported 4,24,000 tons.	14,25,76,000
2. Handling charges on imported fertilisers: (Port Trust, stevedoring, clearing, forwarding, storage etc.)	42,40,000
3. Departmental charges on imports levied by the purchasing organisation	28,02,000
4. Indirect charges:	
(Interest on capital, Pay & allowance of staff employed in the distribution etc.)	10,00,000
5. Inland freight:	
(Calculated on the basis of quantity estimated to be moved to each State and the railway freight thereof).	2,13,34,000
6. <i>Ad-hoc</i> provision for other items of expenditure: Such as demurrage, diversion shortage, storage, subsidy, rebagging and other unforeseen items etc.)	72,48,000
TOTAL COST OF 9,06,000 TONS:	31,63,35,000

	Average cost per ton.	Rs. 349-2-0	
	Final Pool price.	Rs. 350 - per ton.	
N.B. (a)	Uniform price charged to the States for distribution to cultivators of Agricultural crops throughout the Country.	Rs. 350 -	F.O.R. Works depots freight paid to destinations.
(b)	Price charged to Distributors of fertilisers to the Plantation crops (Coffee & Tea)*	Rs. 375 -	--do--
(c)	Price charged to industry.	Rs. 375 -	--do--

In cases (a) and (b) the State Government and the distributors are allowed to charge extra upto a maximum of Rs. 30 per ton to meet the distribution expenses such as:—

- (i) Establishment cost.
- (ii) Godown Rent.
- (iii) Cartage, collies etc.
- (iv) Shortage.
- (v) Distributor's commission.
- (vi) Unloading charges at railhead.
- (vii) Interest charges etc.

Thus the maximum prices chargeable to the agriculturists and plantations are Rs. 380 and 405 per ton, respectively.

N.B. (1) The plantations and Industrial Consumers are charged Rs. 25 more than the agriculturists in recent years, with a view to off-set any losses incurred in the distribution of Fertilisers to Agriculture crops.

* (2) The rate charged for plantations situated in North East India is higher by an additional Rs. 17 per ton. This is due to the fact that the transport charges to the tea gardens situated in Assam and North Bengal are very high, and mostly the movement has to be arranged *via* rail-cum-river route (*via* Pakistan) involving extra freight over and above the equated freight rate.

APPENDIX LXIII

Note from the Ministry of Works, Housing and Supply under para 15 of Audit Report, (Civil), 1956—Part I regarding fraudulent drawal of material from Government stores.

Have there been further cases of fraud last year or this year? To what extent has disciplinary action been taken in the past served as deterrent or proved effective?

The Audit Para in question covers the following two cases where materials were fraudulently drawn from the Central Stores Division, New Delhi, on presentation of bogus indents with false or fictitious signatures. The Public Accounts Committee wanted to know whether there had been any further cases of fraud during the last year or during this year and to what extent the disciplinary action taken in the past had served as deterrent or proved effective. The position is explained as under:—

The following materials were drawn from the Central Stores Division, New Delhi, on presentation of indents with forged signatures:—

1. G.I. pipes of the total value of Rs. 28,469

These were drawn against two indents dated 30th September, 1952 and 10th October, 1952. These indents were presented to the Section Officer in the Central Stores Division and the delivery of the materials was obtained on the basis of these indents.

The fraud came to light in December, 1952, when the Advice regarding the debit for the cost of these materials was received by the Construction Division No. II on whose behalf the indent was prepared. It was at that time noticed that no such indents were issued by this Division. The matter was immediately reported to the Police authorities for investigation with a view to establishing the conspiracy, if possible, and subsequent prosecution of the culprits. The police, in November, 1953, came to the conclusion that this was not a fit case for judicial trial as there was no likelihood of obtaining conviction against any of the persons involved in the case.

Departmental proceedings were started against the Assistant Engineer, and the Section Officer. The former was punished by stoppage of one increment without cumulative effect, while the Section Officer was punished by stoppage of annual increments for two years with cumulative effect. The Section officer was also not permitted to draw pay for the period of suspension i.e. pay drawn by him was restricted to subsistence allowance during the period of suspension. It was also decided not to count the period of suspension as on duty except for the sole purpose of continuity of service. On an appeal, the punishment given to the Section officer was set aside.

On reconsideration, it has recently been decided to review the orders of the Chief Engineer and the order of the Appellate authority and the Section officer has been asked on 25th February, 1958 to show cause why he should not be dismissed from service. His reply to this notice was received on 6th May, 1958 and is under consideration.

2. Drawal of Cement

In this case also, cement costing Rs. 26,875 was drawn on a forged indent. It came to light in April 1954 when a forged indent for 19 tons of cement was presented to the Store-keeper. On examining the indent, the Store-keeper suspected the *bona fides* of the signatures of the Executive Engineer and the Assistant Engineer. On investigation, it actually transpired that this particular indent was a forged one. Suspicion arose that similar forged indents might have been received in the past and accordingly all indents received in the Stores Division were scrutinised and it disclosed that cement valued at Rs. 26,875 had already been issued against 24 forged indents.

10 officers were found to be responsible for non-observance of the instructions issued in January, 1953 regarding the verification of signatures of the indenting officers. Departmental enquiry was instituted against 7 officers and the remaining three were sent up for trial in a Court of Law but were acquitted by the Court. Disciplinary action was, however, initiated against all the officers and the up to date position about the punishments awarded to them is shown in the enclosed statement.

Indents for the period from 1st October, 1952 to 18th December, 1953, involving issue of materials worth Rs. 5½ lacs have been verified except for amount of Rs. 2311/14/-, and no discrepancy has come to notice in respect of these indents. No further case of fraud in the Central Stores Division during the last year or this year has come to notice. The punishments inflicted on the persons concerned and the preventive measures taken thereafter have thus proved effective.

The 22nd May, 1958.

K. S. KRISHNA SWAMI,
Joint Secretary.

Statement showing the Officers involved in the Cement Fraud case and the penalty awarded to them

<i>Sl. No.</i>	<i>Designation</i>	<i>Penalty Awarded</i>
1.	Assistant Engineer	Reverted as Section Officer and permanently debarred from promotion as Assistant Engineer. On appeal, punishment was reduced to stoppage of one increment without cumulative effect.
2.	—Do—	Increment stopped for two years with cumulative effect. His appeal is under consideration by the W.H. & S. Ministry.
3.	Section Officer	Increment stopped for two years with cumulative effect and recovery of Rs.500 - for the loss caused to the Govt. On appeal, the punishment was modified to one of stoppage of increment for two years without cumulative effect. The period of suspension was also treated as on duty, except that, for the period of suspension. The Officer would not get anything more than what he had received as subsistence allowance, etc.
4.	—do—	Increment stopped for two years without cumulative effect. He preferred an appeal which was rejected.
5.	—do—	Censured.
6.	Sub Divisional Clerk.	His increment was stopped for one year with cumulative effect under the orders of the Chief Engineer. The punishment awarded was, however, set aside and fresh enquiry by the appropriate authority has been ordered.
7.	W.C. Store Clerk.	Increment stopped for two years with cumulative effect and a token recovery of Rs. 200/- in 20 equal monthly instalments for the loss caused to the Govt. Due to some procedural irregularities, the punishment orders were quashed by the Govt. and <i>de novo</i> proceedings are to be started by the S.E.
8.	Asstt. Engineer.	He was prosecuted in a court of law but was acquitted by the court. He has been censured. His appeal is under consideration.
9.	Store Keeper.	He was prosecuted in a court of law but was acquitted by the court. His increment has been stopped for one year without cumulative effect. His appeal is under consideration.
10.	Store Keeper.	He was prosecuted in a court of law but was acquitted by the court. He has since been censured. His appeal is under consideration.

APPENDIX LXIV

Note from the Ministry of Works, Housing and Supply pursuant to action taken on para 36 of the Fifteenth Report regarding improper payments to contractors

Information asked for by the P.A.C.	Answer
(a) Did the contractors put in any claims in writing for the payment of Rs. 18 lakhs ?	<p>There is evidence on record to show that several of the contractors put in their claims in writing in general terms. It cannot however, be stated if the claims were preferred within the prescribed time limit of seven days as no written orders were issued for additional, altered and substituted items of work. In this connection copies of the marginally noted documents are enclosed.</p> <ol style="list-style-type: none"> 1. Letter No. 13, dated 15-10-44 from S. Suchet Singh, contractor to the Executive Engineer, Construction Division No. 1. 2. Letter Nos. DZ/1936 dated 2-3-45 and NZD/980, dated 2-9-46 from M/s. Hind Construction Ltd. to the Executive Engineer, Construction Div. No. 1/D. Division. 3. Endorsement No. WI/529-1, dated 11-3-46 (with enclosures) from the S.E. 1st Circle to the Chief Engineer. 4. Copy of correspondence obtained from one of the contractors, namely Hind Construction Co.
(b) Whether any officer who has not gone to Pakistan was responsible for any of the lapses and the extent to which he was thus responsible.	<p>No other officer who has not gone to Pakistan was responsible for any of the lapses. A study of the record shows that the rates were worked out and finalised as per instructions given personally by the then Chief Engineer who is now in Pakistan. The analysis of rates have been lost. No responsibility could be fixed, as no records are available to show if these were lost in the Central or Divisional office.</p>
(c) Has any action been taken against the officials who failed to prepare the estimates for technical sanction during these nine years?	<p>The main responsibility for the preparation of the estimates was that of the then Ex. Engineer Shri A. H. Noon, who has since gone to Pakistan. The project was completed in June, 1946. The preparation of detailed estimates thereafter would not have served any useful purpose. With a view to completing the formalities, however, detailed estimate for the project was prepared in 1948. Since 1948 this estimate remained under correspondence between the Chief Engineer's Office, Planning Circle and the Executive Engineer 'D' Division in connection with the scrutiny and clarification of various points. The delay in the finalisation of these estimates which was a laborious task was partly due to rush of work and partly to the fact that officers who had personal knowledge of the case had by then left the scene. No action has been taken against any officials for this delay as it is not possible now to hold any individual responsible for it.</p>

K. S. KRISHNA SWAMY,
Joint Secretary

The 9th December, 1957.

CONTRACTOR

No. 7670.

Ref. No. 13.

5, JANTAR MANTAR ROAD,
New Delhi, the 15 October, 1944.

The Executive Engineer,
1st Construction Division,
(C.P.W.D.) New Delhi.

Dear Sir,

I have the honour to request you that during the actual execution of the work, I find that the quantities of certain items like masonry, reinforced cement concrete etc., are exceeding much more than those given in estimate.

As the cost of labour and material has risen much more, and it has become difficult for me to do these items in my tendered rates.

Therefore I request you to kindly pay me, for the extra quantities, at the market rate under clause 12A.

Yours faithfully,
Sd/.....

8, Royal Exchange Place,
Calcutta.

Branches:

Delhi, Gwalior, Okara, Bhiwani,
Pilani, Roorkee, Benaras, Jaipur,
Nasik and Nagda.

SABZI MANDI

Dated, Delhi 2nd March, 1945.

DZ/1936.

The Executive Engineer,
1st Construction Division,
Central P.W.D.,
New Delhi.

Dear Sir,

As the market rates have gone abnormally high, therefore, we beg to bring to your kind notice that our rates for the additional and altered items and quantities will be based on the present market rates.

Thanking you.

Yours faithfully,
Sd/.....
ZONE MANAGER.

HIND CONSTRUCTIONS LIMITED
ENGINEERS AND CONTRACTORS.

Head Office:
8, Royal Exchange Place,
Calcutta.

Branches:
Delhi, Gwalior, Okara, Bhiwani,
Pilani, Roorkee, Benaras, Jaipur,
Nasik and Nagda.

SABZI MANDI
Delhi, 2nd September, 1946.

Ref. No. NZD/980.

The Executive Engineer,
'D' Division, C.P.W.D.
New Delhi.

SUBJECT:—*Claims under clause 12-A for Additional quantities of agreement items at Lodi Road, New Delhi.*

Dear Sir,

With reference to your letter No. 7550, dated 31st ultimo, we beg to bring to your kind notice that when we tender we roughly base our calculations on certain rates but we do not keep any record for such calculations and rates etc., therefore, it is not possible to give you the correct rate of material and labour etc., on which we based our tender for the above referred works.

As regards enhanced rates, we have been bringing to your kind notice during execution of work from time to time and have also submitted our analysis of rates accordingly *vide* our letters dated 23rd February, 1945, 5th March, 1945, 21st May, 1945 and 1st June, 1945, which may kindly be referred in this connection.

As regards original vouchers, they have already been shown in March, 1945, when the rates for Additional, Altered and Substituted items were being framed. Now our record is in Head Office at Calcutta in connection with Income Tax etc., therefore it is not possible for us to show the vouchers again.

We hope you will very kindly realise the gravity of the situation and arrange to frame our rates for Additional quantities taking into consideration the increased rate for material and labour. It is needless to mention that we are under very heavy losses as you are fully aware of the same and hope you will very kindly arrange to clear our account at an early date as the matter has already been sufficiently delayed.

Thanking you,

Yours faithfully,
Sd/-.....
(Zone Manager),
Hind Constructions
Northern Zone.

CENTRAL PUBLIC WORKS, DEPARTMENT (iii)

From,

The Superintending Engineer,
First Circle,
New Delhi.

To,

Government Contractors,
New Delhi.

No. W.1.529-L, dated, New Delhi, the 11th March, 1946. Reference your letter No. 194/D, of 5th March, 1946.

Your letter does not sum up our discussions correctly. I enclose herewith a copy of my notes for your information.

I have made enquiries regarding extra rates for additional quantities referred to in clause 12-A. This matter is under consideration of Chief Engineer and I am requesting him to expedite his decision.

Regarding your claim No. 4, in view of what I explained at the last meeting I regret that I cannot revise my opinion. It was up to you to correctly anticipate the labour requirement of the following day on the basis of materials in hand the previous day and adjust the labour accordingly.

Sd/- G. R. SETHI,
*Superintending Engineer,
First Circle.*

No. W1.529-L.

Dated, New Delhi, the 11th March, 1946.

Copy to Chief Engineer with a copy of contractor's letter to which it is a reply.

Copy of Executive Engineer, 'D' Division, New Delhi.

*Superintending Engineer,
First Circle.*

Dated 5th March, 1948.

Ref. 194/LD.

The Superintending Engineer,
1st Circle,
Central, P.W.D.,
New Delhi.

Dear Sir,

We all the undersigned (Lodi Road Contractors) are very much thankful for your patient hearing on 28th February, 1946 in the presence of Malik A. H. Noon, the Executive Engineer, and Mr. Chanan Ram, the S.D.O. regarding our claims for constructing clerks quarters at Lodi Road. The following points were put before you for your consideration:—

- (1) Our rates for Additions, Altered and Substituted works to be based on market rates according to Clause 12-A of our Agreement.
- (2) Weight of steel supplied by the Department to be charged according to the British Standard Specification.
- (3) Compensation for the smaller size of bricks supplied by the Department and more mortar used due to same.
- (4) Compensation for the labour sitting idle due to delay in the supply of bricks, cement, petrol coupons, etc.
- (5) No deductions to be made against repairs done Departmentally after our handing over the buildings duly completed.

You were good enough to consider the above mentioned points as under:—

- (1) You expressed your personal views regarding Clause 12-A that you do not find reasons how the Government can back out when it exists in our Agreement. You also informed us that the matter is already under the consideration of the Labour Department, and you will make necessary enquiries about the decision and will convey the same to us within a day or two.
- (2) As regards weight of steel supplied by the Department, we were informed that it has already been decided by Rai Bahadur Mathur that the same should be charged according to the British Standard Specification and his this decision has already been conveyed to the Executive Engineer.

- (3) As regards smaller size of bricks and more mortar used, you were good enough to accept our this claim and asked the Executive Engineer to verify the same by calculating the number of bricks actually used from the measurements of the works.
- (4) Our this claim was rejected under the plea that a clause exists in our Agreement that no such compensation can be claimed by the Contractors due to delay for supply in material. We brought to your kind notice that had the information been given to us in time (a night earlier) we should not have engaged our labour in the morning; but what actually was happening is, that we were putting our labour on works in the morning and were being compelled to stop the work in the mid-day etc. due to shortage of material such as, bricks, cement, petrol coupons etc. In view of the above facts our this claim is **also** quite justified and hope will meet your approval if due consideration is made in light of the above facts. We do not think it will be out of place to mention, when our this is not being accepted simply because a clause exists in our Agreement which does not allow the Department to compensate us under the circumstances, we are really at a loss to understand how the payment to compensate us under the circumstances we are really at a loss to understand how the payment for additional, altered and substituted works are not being made to us according to Clause 12/A which also exists in the Agreement and is quite clear in its sense and it was specially introduced to relieve the contractors due to War conditions.
- (5) As regards repairs done afterwards departmentally, we leave the matter entirely on your justice.

We are,
Yours faithfully,
Lodi Road Contractors.

COPY

New Delhi, the 24th November, 1944.

To

The Executive Engineer,
Construction Division No. 1,
C.P.W.D., New Delhi.

Dear Sir,

We observe from the actual execution of the work that you have changed the design from the original one and this caused sufficiently large quantity of additional work. It is, therefore brought to your notice that any additional, altered, or substituted work over and above the stipulated quantity caused by the change in design or for any other reason may kindly be paid as revised and worked out on the basis of analysis providing market rates for material and labour.

Thanking you,

Yours faithfully,

Copy forwarded to the Superintending Engineer, 1st Circle,
C.P.W.D., New Delhi.

COPY

24th November, 1944.

To

The Executive Engineer,
Construction Division No. 1,
C.P.W.D., New Delhi.

Dear Sir,

We observe from the actual execution of the work that you have changed the design from the original one and this caused sufficiently large quantity of additional work. It is, therefore, brought to your notice that any additional, altered, or substituted work over and above the stipulated quantity caused by the change in design or for any other reason may kindly be paid to us on the basis of market rate under clause 12-A.

Thanking you,

Yours faithfully,

Copy forwarded to the Superintending Engineer, 1st Circle,
C.P.W.D., New Delhi.

COPY

CENTRAL PUBLIC WORKS DEPARTMENT

From

Malik A. H. Noon, Esq.,
Executive Engineer,
1st Construction Division.

To

M/s. Government Contractors
No. 3527, Dated 11th April, 1945.

Ref: Your letter dated 24th January, 1945.

All the extra work done by you is being measured and record is being kept by the S.D.O. incharge. This will be treated in accordance with the terms of your agreement.

Sd - EXECUTIVE ENGINEER.

COPY

DZ/1936.

2nd March, 1945.

The Executive Engineer,
1st Construction Division,
Central P.W.D., New Delhi

Dear Sir,

As the market rates have gone abnormally high, therefore, we beg to bring to your kind notice that our rates for the additional and altered items and quantities will be based on the present market rates.

Thanking you.

Yours faithfully,
Sd/-.....
Zone Manager.

COPY

DZ/632.

26th June, 1945.

The Executive Engineer,
1st Construction Division,
Central P.W.D., New Delhi.

SUBJECT:—Altered, Additional or Substituted Works

Dear Sir.

With reference to your letter No. 6713, dated 31st May, 1945, we had been to the S.D.O./4 to see the rates prepared by him as mentioned in your letter under reference but we find that his rate list

is still incomplete, therefore, to facilitate the matter we are submitting herewith our analysis of the rates for our altered, additional and substituted works done in 'A' Class quarters and Chummery Blocks on Lodi Road.

It is understood that the percentage tendered by us above rates entered in the Agreement is payable to us in addition to these rates.

We hope you will very kindly forward them to the Superintending Engineer for favour of sanction.

Analysis of rates for the remaining altered, additional or substituted works will follow.

Thanking you.

Yours faithfully,
Sd/-.....

Encl.

COPY

CENTRAL PUBLIC WORKS DEPARTMENT

From

Malik A. H. Noon, Esq.,
Executive Engineer,
1st Construction Division.

No. 6713.

Dated New Delhi 31st May, 1945.

**SUBJECT:—Construction of Clerks Quarters at Lodi Road,
New Delhi.**

Dear Sir,

With reference to your No. DZ/1936, dated 2nd March, 1945 I am to inform you that all the additional items have been prepared according to your agreements which may be seen from my S.D.O. 4/C.

Yours faithfully,
Sd/-.....
EXECUTIVE ENGINEER.

COPY

Ref. No. DZ/975.

9th August, 1945.

The Superintending Engineer,
First Circle, C.P.W.D.
New Delhi

Dear Sir,

Our bills are held up since very long simply for the decision of rates for additional, altered and substituted works for which we have requested you from time to time.

According to agreement clause No. 12-A you are the final authority to settle the rates for such items, therefore, will you kindly expedite your decision and oblige.

Thanking you.

Yours faithfully,
For Hind Constructions Limited.

Sd/-
Zone Manager.

COPY

Ref. No. DZ/1072.

22nd August, 1945.

The Executive Engineer,
1st Construction Division,
Central Public Works Department,
New Delhi.

Dear Sir,

We are feeling very much handicapped in absence of payment. Will you very kindly arrange to expedite payment against our running bills and oblige.

The decision for the rate of additional altered, and substituted items also may kindly be made at an early date as our sufficient funds have been blocked in the absence of decision.

Thanking you in anticipation.

Yours faithfully.
Sd/-
Manager.

COPY

CENTRAL PUBLIC WORKS DEPARTMENT

From

Malik A. H. Noon, Esq.,
Executive Engineer,
'D' Division,
New Delhi.

No. M. 7445

Dated, New Delhi, the 24th August, 1946

S.D.O. 4/D Mr. _____ is preparing extra items under Clause 12-A. In this connection it is necessary to find out the exact increase in rates of Material used in items concerned. Will you please intimate any increase in rates of materials to Mr. _____, within four days from the date of receipt of this letter otherwise in this respect from your side will be taken as Nil. The figures should be supported by vouchers and receipts.

Please treat this as urgent.

Sd/-
EXECUTIVE ENGINEER.
'D' Division, New Delhi.

. APPENDIX LXV

No. EI-2 (93)

New Delhi, the 13th December, 1956.

Note from the Ministry of Works, Housing & Supply pursuant to action taken on para 61 of the Sixteenth Report regarding administrative audit system in the multi-purpose river valley projects and Ministries.

With reference to para 61 of the sixteenth report of the Public Accounts Committee and further to this Ministry's O.M. of even number dated the 15th May, 1956, the undersigned is directed to state that the question of setting up of the C.T.E's Organisation was further discussed with the A.G.C.R. Deputy Comptroller and Auditor General, Director of Audit (Defence Services), Controller General of Defence Accounts and officers of the Ministry of Finance and it has been decided to establish *immediately* the C.T.E's 'Cell' comprising of one C.T.E. of the grade of Superintending Engineer and two T.E's of the grade of Executive Engineers with the attendant staff as it would be difficult just at present to find the full-fledged complement of the technical personnel of the required calibre to maintain the full-fledged C.T.E's Organisation on the lines similar to to the one existing in the M.E.S. On gaining experience with the 'Cell', say after a period of six months or so, the question of expansion of the Cell into a full-fledged C.T.E's Organisation will be considered.

2. It is requested that the position stated may kindly be brought to the notice of the Public Accounts Committee for their information.

K. S. KRISHNA SWAMI,
Joint Secretary.

APPENDIX LXVI

Note from the Ministry of Irrigation & Power pursuant to action taken on para 94 of the Sixteenth Report regarding Stock verification of stores.

Stores Accounting at Hirakud.

The circumstances prevailing in the initial stages of the Project which were responsible for the unsatisfactory store accounts have already been fully explained in this Ministry's Office Memorandum No. DW.III.12(83) dated the 26th December, 1953. It will also be recalled that it was in order to place the store accounts on a proper basis that the Comptroller & Auditor General visited the Project in July, 1953 and, as a result of his on-the-spot study, he made certain recommendations. Based on these recommendations orders for the adjustment of the accounts were issued in this Ministry's letter No. DW.III.2(22)/55 dated the 16th June, 1955. These orders stipulated as follows:—

- (i) the adoption of the bin-card balances as the opening balances in the ledgers on 1st November, 1952, without verifying that the actual balance on 1.11.52 was the correct balance;
- (ii) the adjustment in the accounts of the Project of the difference between the value of the opening balances of the ledgers on 1st November, 1952 and the stores balance appearing in the Central accounts as on 1st November, 1952. (The latter will be the same as the total value of the reconstructed Register of Stock as on 1.11.52); and
- (iii) adjustment from time to time in the ledgers and accounts the differences in quantities and values resulting from stock verification.

2. According to the recommendations of the Committee past accounts should have been re-constructed to verify that all the balances that ought to be there were actually there on the date of physical verification. In this connection it may be mentioned that the bin-card system had been introduced at the Project in April, 1951. Before that, accounts were being maintained on the basis of the Public Works Department Forms Nos: 8, 9 and 10, Ordinarily these forms should have given sufficient information for the purpose of stock accounts. Unfortunately, however, as has already been explained to the Committee, huge stocks of stores were received from the Disposals. Some items were purchased by quantities while many others were purchased by mere weight. Also supporting documents e.g. invoices etc., were not received on many occasions by the Project alongwith the stores. Moreover, the stores could not be verified and accounted for as soon as they were

received and as such the packages received remained unopened and unaccounted for for more than a year. The result, therefore, was that information regarding the various items and their quantities was not accurately known. In spite of this an attempt has already been made by the Financial Adviser & Chief Accounts Officer Hirakud to reconstruct the Central stock accounts on the basis of all the vouchers and other information which is available and a reconstructed register of stocks has been prepared as stipulated in this Ministry's letter of 16th June, 1955 mentioned above. It is, however, not possible to be definite that the quantities shown in the reconstructed register of stocks were absolutely correct.

3. According to the Central accounts, stores worth Rs. 5,19,43,192/- should have been available in the stocks of the Project on the 1st November, 1952. As already stated, it cannot be definitely said that the quantities shown in the re-constructed register of stocks were absolutely correct. Naturally, therefore, there are differences between quantities shown in the reconstructed register of stocks and the quantities shown in the bin-cards as adopted on the 1st November, 1952. It has been found that the balances in the bin-cards in some cases exceed the quantities in the register of stocks by Rs. 1,44,17,729/13/10 while in other cases the balances in the bin-cards show shortages over the quantities in the register of stocks amounting to Rs. 17,59,149/10/2.

4. On the face of it, it would appear that the Project had more stores than it had actually purchased. In reality, however, this could not be so. The main reasons which would account for these excesses and shortages are given below:—

- (a) The Disposal stores were received in lots either by weight or in numbers. The supporting documents were not received alongwith the stores in all cases. The verification and the accounting of the stores, so received, was carried out after a long time. Although the Central stock accounts have been re-constructed, they still cannot possibly be regarded as complete in so far as the information regarding the quantities is concerned. This means that although on the basis of the available information, certain quantities for a particular item were adopted, in actual practice when the stores were physically counted on the 1st November, 1952, the quantities revealed were much more than originally adopted. Since the price per item was allowed to remain as originally adopted, the result was that the total value of the stores went up considerably.
- (b) The Disposal stores were received on a wholesale basis and the prices paid for them had no relation to the market value. After the stores had been received by the Project, they were evaluated not on the basis of what had been paid for them but on the basis of market prices supposed to be prevailing at that time and in some cases, even on an *ad hoc* basis. As a result, the value of stores came to be much more than what was actually paid for them.

- (c) In some cases there have been mis-classification of stores. Some stores accounted for under one nomenclature in the Central stock accounts were taken under a different nomenclature in the bincards. This could, to some extent, account for not only the excesses but also the shortages. These excesses and shortages could also account to some extent for the excesses and the shortages in value because different articles would be priced differently under different nomenclatures.

5. It will be seen that the shortages are very small as compared to the excesses. These excesses and shortages should be regarded as mainly due to errors in accounting and it is very difficult to say whether there have been any real losses. Also in view of the circumstances which were prevailing at the time and which have already been fully explained to the Committee, it is not possible at this stage to hold anyone responsible in this matter.

6. The Accountant General, Orissa, has advised as follows:—

‘The shortages due to errors in accounting can be set off against excesses in items of the same specifications and descriptions after proper investigations, but the amounts covering other shortages can be cleared from the “Miscellaneous Public Works Advances” either by recoveries of the amounts from the persons responsible for the shortages in cases where responsibility can be fixed or by writing off the amounts under orders of the competent authority in cases where no such responsibility can be fixed.’

As already stated, it is not possible to hold any one person responsible in the matter at this stage and the Government, therefore, propose formally to write off these shortages.

T. SIVASANKAR,
Secretary.

APPENDIX LXVII

No. F.10(43)-B/56

New Delhi, the 4th April, 1957.

Note from the Ministry of Finance (Department of Economic Affairs) pursuant to action taken on para 265 of the Twenty-third Report regarding Transfer of the work relating to pensions in respect of British personnel to U.K.

At their sitting held on the 17th December, 1956, the Public Accounts Committee desired to be furnished with the following further information:—

- (i) What were the considerations that really weighed with the Government for adopting one per cent. rate of interest for computing the capitalised value of the pensions?
- (ii) If there was a definite understanding between the two Governments on the calculation of the capitalised value on a basis other than the normal basis why was it not mentioned in the agreement itself?

2. This question has to be considered against the background of the settlement reached with the U.K. Government in 1948, under which, in return for two capital sums, the Government of India were to receive tapering annuities to cover Sterling Pension payments of the Central and State Governments in India, over a period of 60 years ending 2007-2008, the capital sums having been arrived at on the basis of a rate of interest of 1% per annum. The determination of the capital sums involves two processes: first the determination of the probable sums payable each year on account of the pensions on a diminishing scale until the pensions cease altogether; the second the determination of the present value of these future payments. The first process does not involve the application of any rate of interest. It is merely an estimate of the payments likely to be made each year. The second involves the application of a rate of interest which in 1948 was assumed to be 1 per cent. This rate itself, it may be mentioned, was somewhat higher than the rate earned by the Sterling balances as a whole at the time or the rate that could be earned on those balances under the Sterling Balances Agreement of 1948.

In the 1948 settlement the first calculation was done not on the actuarial basis but on the basis of a rough estimate of payments diminishing ultimately to zero over a period of 60 years and the present value of these future payments was then computed assuming an interest rate of 1 per cent. Now we are merely revising the first estimate of future payments by an actuarial calculation made with reference to all the individual pensions in payment and likely

to be made in respect of a few officers continuing in service and also the allowances existing and prospective, to wives, children, widows and orphans.

We are not re-opening the basis of the second process which involves the application of a rate of interest. It is for this reason that there was no need to mention any rate of interest to be assumed in calculating the present value of the pensions. In fact, the final transfer of pensionary liability did not, in the view of the U.K. Government necessitate any substantial modification of the 1948 agreement but only an *ad hoc* adjustment within its framework. They only contemplated that the annual further payments to the pensioners should be calculated on an actuarial basis and that each year the Government of India should pay to the United Kingdom Government or be paid the difference between the amounts thus worked out and the sums payable to the Government of India by the United Kingdom Government under the 1948 agreement. In other words, the United Kingdom suggestion did not envisage any further capitalisation at this stage. If their proposal had been accepted, financially, the Government of India would have stood in exactly the same position as they now stand, the transactions still remaining spread over the long period ending in 2007 A.D. Against this background the Government of India felt that it would be an advantage if the transaction could be closed at an earlier stage and the capital sum recalculated on the same pattern as in 1948 but substituting for the estimated further payments the sums actuarially worked out. This had also the further advantage that sums receivable under the U.K. proposal annually over a long period would be received by the Government of India in a much shorter period, subsequently settled at ten years. The settlement between U.K. and this country whose implementation would have dragged on over the next 50 years would now be completed in the next seven years. The Government of India pressed for a higher rate of interest but the U.K. Government contended that the present settlement was only a telescoping of the 1948 arrangements and any question of a change in the basis of the agreement could not arise. The only practicable alternative was to leave the original arrangements undisturbed. But the Government of India accepted the new arrangement maintaining the rate of interest at 1% as it was tidier and was also financially advantageous.

3. So far as the refund of the excess amount due to India is concerned, on the revised basis the sum became immediately payable. But, as the U.K. Government wished to pay it in a limited number of instalments, the question of the interest to be paid by them arose and it was agreed that this should be one per cent. This arrangement had to be mentioned in the revised agreement because, although it was a connected transaction, the arrangement for paying the sum due to India in instalments could be treated as a new and separate factor.

4. This memorandum has been seen and concurred in by the Comptroller & Auditor General of India.

SHIV NAUBH SINGH,
for Joint Secretary.

APPENDIX LXVIII

Note from the Comptroller & Auditor General of India regarding procedure for regularising expenditure from the Consolidated Fund incurred without the authority of Parliament or the State Legislature as the case may be.

A case was reported by the Government of Uttar Pradesh in which a sum of about Rs. 10,000 was spent out of the Consolidated Fund of the State by the Head of a Department in connection with a certain Exhibition. The State Government agreed that the expenditure was on a 'New Service' not contemplated in the budget. As no supplementary grant was taken during the year in which the expenditure was incurred, the State Government sought the advice of the Government of India as to the procedure that should be adopted to regularise the expenditure. The view taken by the Union Ministry of Finance and the Ministry of Law is that the Constitution of India does not require any action to be taken to regularise the expenditure beyond bringing it to the notice of the Legislature through the Public Accounts Committee. A copy of the opinion expressed by the Ministry of Law is enclosed herewith. This conclusion has been reached by the Ministry even after it was pointed out to them that in view of the provisions of Article 266(3) of the Constitution which says that:—

“No moneys out of the Consolidated Fund of India or the Consolidated Fund of a State shall be appropriated except in accordance with law and for the purposes and in the manner provided in this Constitution.”

the obvious action required to regularise an Appropriation made out of the Consolidated Fund without the authority of law was to promote the appropriate legislation so as to provide the necessary authority.

It seems to the Comptroller & Auditor General that:

(1) where money has actually been spent from the Consolidated Fund on a “New Service” without the authority of law, the expenditure must be deemed to have been automatically disallowed;

(2) the effect of disallowing the expenditure is, in the words of the U.K. Treasury Minute of 18th January, 1921, reproduced on pages 606 and 607 of the Epitome of the Reports from the Committees of Public Accounts 1857 to 1937, “that the Accounting Officer of the Vote has an item in his expenditure for which he can obtain no discharge and that he is in consequence out of cash to the extent

of the charge disallowed. This shortage can be made good either by the recovery of the amounts expended or by a Vote of Parliament authorising the expenditure and so enabling the Accounting Officer to obtain a discharge for it."

As a very important question of principle in relation to parliamentary control over expenditure is involved, the case is submitted to the Public Accounts Committee for their consideration.

21-12-57

P. C. PADHI,
*Additional Deputy Comptroller
and Auditor General (Report).*

Notes in the Ministry of Law
Adv. (F) Section

It appears from the letter of the U.P. Government of July, 1956 that an expenditure of Rs. 10,000/- incurred by that Government in connection with an exhibition was not covered by any provision in the budget of that year (the year is not mentioned) and was not covered by the relevant Appropriation Act of the State Legislature. It is, however, stated that the expenditure was booked in the accounts of that year under the Consolidated Fund Section. It is further stated that the expenditure was on a new service and presumably we have to proceed on that basis. Since the expenditure was not authorised by the appropriate law it is *prima facie* irregular having regard to articles 204(3) and 266(3) of the Constitution and the question raised is how it should be regularised.

2. The law officers of the U.P. Government have suggested that the expenditure can be regularised by sanctioning an *ex post facto* advance from the State Contingency Fund. U.P. Government and the Ministry of Finance have pointed out the difficulties in adopting this course. The terms of clause (2) of article 267 indicate that the State Contingency Fund cannot be utilised in such cases. Moreover, the concluding portion of that clause contemplates the ultimate authorisation of the expenditure by law under article 205 or 206. If, then, the law under one of these articles is necessary there is no point in having recourse to the Contingency Fund for regularising expenditure *already incurred*. This may as well be done straightaway by law under one of those articles if that is constitutionally possible. It would appear from what is stated hereafter that this is not possible.

3. The other suggestion in paragraph 3 of the letter of the U.P. Government that the expenditure may be deemed to have been met from the Public Account of the State is also not practicable for the reasons stated by the Ministry of Finance. The expenditure does not appear to be properly debitable to the Public Account [see articles 266(2) and 284].

4. The only other point which requires consideration and which has been considered both by U.P. Government and in the foregoing notes on this file is whether action can be taken under sub-clause (b) of article 205(1) of the Constitution. If it was a question merely of an excess, action could certainly have been taken under that provision, but this is a case of expenditure incurred on a new service in a year, accounts of which have already been closed. Sub-clause (b) applies if any money has been spent on any service during a financial year in excess of the amount granted for that service and for that year. The words being "amount granted for that service and for that year", the sub-clause cannot be construed as including a case where money has been spent on a new service

on the ground that amount granted for such service in the previous Estimates should be deemed to be nil. "Amount granted" cannot include amount not granted which will be the practical effect of saying that the amount granted is nil.

5. The same result follows on a comparison of the wording of sub-clauses (a) and (b) of article 205(1). Sub-clause (a) provides for two cases, viz.,

- (1) if the amount authorised by law under article 204 for a particular service for the current financial year is found to be insufficient for the purposes of that year; and
- (2) when need has arisen during the current financial year for supplementary or additional expenditure upon some new service not contemplated in the annual financial statement for that year.

Sub-clause (a) applies to the needs of the "current financial year" but the two cases mentioned in the sub-clause and particularly the distinction drawn between service already provided for and new service show that the one does not include the other. The language of sub-clause (b) resembles that of case (1) above and since that case does not include a case of new service, sub-clause (b) must be construed by analogy as not including a case where money has been spent on a new service. With due respect to the opinion of the Comptroller and Auditor General, therefore, it appears to me that recourse cannot be had to article 205(1) (b) in this case when money has been spent in a previous year on a new service.

6. The concluding sentence of the note from the Comptroller and Auditor General dated the 17th January, 1957, refers to U.K. law and practice and dictum of the Public Accounts Committee in that country. I have not been able to trace these, but we are in this country governed by the specific provisions of the Constitution. On the language of article 205(1) (b) I find it difficult to accept the view expressed by the Comptroller and Auditor General. The case seems to me to be one which is not provided for by the Constitution and in these circumstances it will probably be necessary to leave the matter eventually to the Public Accounts Committee of the State Legislature for such action as it considers proper.

Sd./- K. Y. BHANDARKAR,
Joint Secretary.

26-2-57.

I agree with J.S.

Sd./- K. V. K. SUNDARAM,
Secretary.

1-3-57.

APPENDIX LXIX

Note from the Ministry of Rehabilitation pursuant to action taken on para 117 of the Sixteenth Report regarding Officers employed in the various camps against whom disciplinary action was taken for frauds, embezzlements etc.

New Delhi, the 28th June, 1957.

The Public Accounts Committee desired that the Ministry of Rehabilitation should intimate the total loss to Government on account of frauds, etc., in the 41 cases already reported to the Committee.

2. Accordingly, the position in respect of each of these 41 cases has been reviewed, in consultation with the State Governments concerned and a statement showing the amount of loss in each case and the recovery effected, if any, is enclosed.

3. It would be observed that of the 41 cases, no pecuniary loss was caused to Government in two cases (Sl. No. 6 and 17 of the statement). In two more cases (Sl. No. 28 and 34 *ibid*) the State Governments concerned have expressed their inability to assess the loss. The total loss involved in the remaining 37 cases works out to Rs. 92,834/2/3, as against which recoveries to the extent of Rs. 6,209/3/9 were made from the officers concerned, leaving a balance of Rs. 86,624/14/6. All efforts to make further recoveries have proved fruitless and the prospects of such recoveries seem remote, for the reasons already indicated against each item in the Statement referred to by the Committee in para 117 of their Sixteenth Report.

4. This note has been vetted by the Chief Audit Officer, Food, Rehabilitation & Supply, New Delhi.

DHARMA VIRA,
Secretary.

Statement showing the break up of the losses in 41 cases reported to the Public Accounts Committee

Sl. No.	Serial No. of the statement (Appendix XXIX referred to in para 117 of the Sixteenth Report of the Public Accounts Committee)				Loss involved	Recovery made, if any	Remarks
	1	2	3	4	5	6	7
					Rs.	Rs.	
1.	1	.	.	.	490 0 0	Nil.	
2.	2	.	.	.	350 0 0	Nil.	
3.	3	.	.	.	2,897 12 0	Nil.	
4.	4	.	.	.	2,000 0 0 (Estimated)	Nil.	
5.	5	.	.	.	2,200 0 0	Nil.	
6.	6	.	.	.	Nil.	Nil.	
7.	7	.	.	.	582 12 0	582 12 0	
8.	8	.	.	.	768 11 0	354 8 0	
9.	9	.	.	.	2,516 3 0	Nil.	
10.	10	.	.	.	472 13 0	103 4 0	
11.	11	.	.	.	3,839 8 0	Nil.	
12.	12	.	.	.	2,175 12 9	Nil.	
13.	13	.	.	.	387 0 0	151 8 6	
14.	14	.	.	.	2,217 5 0	Nil.	
15.	15-16	.	.	.	75 0 0	Nil.	
16.	17	.	.	.	6,839 15 0	Nil.	
17.	18	.	.	.	Nil.	Nil.	
18.	19	.	.	.	4,499 13 6	Nil.	
19.	20	.	.	.	2,190 0 0	Nil.	
20.	21	.	.	.	21 7 0	Nil.	
21.	22	.	.	.	900 0 0	400 0 0	
22.	23	.	.	.	470 8 0	122 3 0	
23.	24	.	.	.	1,787 6 0	1,787 6 0	
24.	25	.	.	.	200 0 0	Nil.	
25.	26	.	.	.	9,366 5 0	182 0 0	
26.	27	.	.	.	7,414 15 0 (Estimated)	Nil.	
27.	28	.	.	.	15,625 0 0	Nil.	

1					2					3					4					5				
										Rs.					Rs.									
28.	29	.	.	.	.	.	.	.	.	*										*Loss cannot be assessed.				
29.	30	.	.	.	.	.	.	.	.	193 8 0					Nil.									
30.	31	.	.	.	.	.	.	.	.	1,032 0 0					1,032 0 0									
31.	32	.	.	.	.	.	.	.	.	142 5 3					142 5 3									
32.	33	.	.	.	.	.	.	.	.	1,000 0 0					Nil.									
33.	34	.	.	.	.	.	.	.	.	1,860 4 0					Nil.									
34.	35	.	.	.	.	.	.	.	.	*										*Loss cannot be assessed.				
35.	36	.	.	.	.	.	.	.	.	626 0 0					626 0 0									
36.	37	.	.	.	.	.	.	.	.	8,280 0 0					Nil.									
37.	38	.	.	.	.	.	.	.	.	465 4 9					Nil.									
38.	39	.	.	.	.	.	.	.	.	200 0 0					200 0 0									
39.	40	.	.	.	.	.	.	.	.	3,239 6 0					Nil.									
40.	41	.	.	.	.	.	.	.	.	5,507 4 0					525 5 0									
TOTAL										92,834 2 3					6,209 3 9									

APPENDIX LXX

Note from the Ministry of External Affairs pursuant to action taken on para 57 of the Fifteenth Report regarding Outstanding Recoveries.

- (i) The keeping of any transaction in Suspense Account for practically one decade, as has been done in this case relating to the supply of agricultural implements to the Afghanistan Government, seems to be highly irregular. The committee would like to know the progress made in the settlement of this long outstanding item.
 - (ii) A special scrutiny of the transactions under "Suspense" may be conducted by Government with a view to seeing that no such items are lying uncleared for such long periods.
1. As regards the suggestion by the Public Accounts Committee that special scrutiny of transactions under 'Suspense' may be conducted by Government with a view to seeing that no such items are lying uncleared for such long periods, Article 109 of the Audit Code prescribes a procedure for such scrutiny by the Audit and Accounts authorities with a view to seeing that unadjusted balances under these heads continue to represent *bona fide* assets or liabilities of Government capable of being realised or settled, as the case may be, and that satisfactory action towards such realisation or settlement is being taken by officers responsible therefor. The Audit and Accounts Department has also to review at short intervals all balances under Suspense heads to ensure that no such item remains unadjusted longer than is absolutely necessary to bring about its clearance in the ordinary course with due regard to rules applicable to each case.
 2. As regards the progress made in the settlement of the particular item referred to by the Committee, the position has been examined further.
 3. Accounts to adjust recoveries might have been due to the failure of the Comptroller, N.W.F.P., to pass on the credits to him. The position cannot, however, be ascertained now as the records of the Comptroller are not available with us and the British Legation, Kabul is not under our control any more. The Government of India have, therefore, no means of tracing the requisite papers either from the Legation or from the Comptroller, N.W.F.P.
 4. In view of the difficulties stated above, the matter was discussed with the Comptroller and Auditor General and the Ministry of Finance, and it was decided that having regard to the 'age' of the transactions and the incomplete records now available, the appropriate course would be to clear the outstanding in the Suspense Account by debit to the head "64-C-Pre-Partition payments".
 5. Subsequent to the consideration of this case by the Public Accounts Committee, the Chief Audit Officer, Food, Rehabilitation and Supply had intimated to the Ministry of External Affairs that the actual amount lying under suspense was Rs. 3,91,862-4-11. Necessary instructions have been issued to the Chief Pay and Accounts Officer, Ministry of Works, Housing and Supply to adjust this amount in accordance with the decision referred to in the preceding paragraph.

APPENDIX LXXI

Note from the Ministry of External Affairs pursuant to action taken on paras 59 and 60 of the Fifteenth Report regarding over-drawal of Exchange Compensation Allowance.

- (a) The Committee take a serious view of Officers producing false certificates for the drawal of Exchange Compensation Allowance. Adequate action should be taken against the officials who had indulged in illegal currency operations while drawing Exchange Compensation Allowance in the Missions abroad.
- (a) Excluding the Head of the Mission whose case had already been dealt with earlier the cases of 10 more officials who served in the Mission were investigated. No formal proceedings were drawn up against five officials, as their explanations were found to be satisfactory but they are being formally warned. In regard to the remaining five officials the action taken is as indicated below :—
- (1) One officer was directed to refund a sum of Rs. 3,200 representing the difference between the open market rate and official rate of exchange in respect of certain claims which should have been drawn in local currency instead of in Indian currency. Government's displeasure has also been communicated to him.
 - (2) The disapproval of the action of the second officer for the abuse of the concession of E.C.A. was communicated to him. The excess amount overdrawn on this account was also refunded by him. In respect of claims arising out of expenditure incurred on tours which were drawn in Indian currency instead of in local currency, a sum of Rs. 70 representing the difference between the open market rate and official rate was refunded by the officer, who has since retired from service.
 - (3) A warning was administered to the third officer who voluntarily surrendered a sum of Rs. 1,500 to Government as undue benefit derived by him.
 - (4) In the case of the fourth officer, the charge of availing of the benefits of favourable open market rates of exchange was not established.
 - (5) The fifth officer has been directed to refund a sum of Rs. 1,000 representing undue profit which accrued to him on claims drawn in Indian currency instead of in the local currency. After the payment is made, displeasure of Government will be formally conveyed to him.
- (b) As one of the measures to prevent the recurrence of cases of irregular currency operations in future the Com-
- (b) The proposal regarding the fixation of foreign allowances in foreign currencies involves practical difficulties which have a

mittee would suggest that the Foreign Allowance of Officers serving abroad should be fixed in the currency of the countries in which they are serving and Exchange Compensation Allowance abolished.

bearing on the existing budgetary arrangements. Since foreign currencies are liable to fluctuations, the rupee value of the foreign allowances, if fixed in local currencies, would become liable to unforeseen variations, thus rendering budgetary and financial control difficult. The Foreign Service Inspectors are at present engaged on the work of revision of foreign allowances on a more rational and realistic basis with a view to relate them to the cost of living in foreign countries. This has been done in the case of a large number of missions, yet some work still remains to be completed. The system of F.C.A. has already been abolished in the case of missions where foreign allowances have been revised and similar action is proposed to be taken in respect of the remaining few missions.

P. N. CHAKRAVARTY,
Special Secretary.

APPENDIX LXXII

Note from the Ministry of External Affairs pursuant to action taken on paras 36 and 37 of the Twenty-third Report regarding infructuous expenditure on lease of building.

Para. 36.—The observations of the Committee have been noted. They have also been brought to the notice of the High Commission of India. As regards the Committee's query whether the Financial Adviser attached to the High Commission of India was consulted in the matter, it has since been ascertained from the High Commission that the Financial Adviser was not consulted.

Para. 37.—Selection of an officer as Charge d'Affairs/First Secretary for the Indian Embassy in the country has already been made and approved by Government. The officer is expected to join early in December, 1957, when the Embassy will start functioning. The question of surrendering the building by compromising with the lessor, therefore, does not arise now.

R. K. TANDON, "

The 10th November, 1957.

Joint Secretary

APPENDIX LXXIII

No. 10 (5) /56-BP

New Delhi-2, the 10th September, 1957.

Note from the Ministry of Information and Broadcasting pursuant to action taken on para 46 of the Seventh Report regarding payment to P.T.I. and Reuters.

The undersigned is directed to refer to the correspondence resting with this Ministry's Office Memorandum No. 6/4/55-B&G, dated the 4th January, 1956, and to say that the question of payment to News Agencies on the basis of wordage supplied or used has been thoroughly examined. Enquiries made in this connection reveal that no News Agency of importance is being paid on this basis for the service rendered by it. Subscriptions to News Agencies are fixed mostly on the basis of a lump-sum payment, either monthly or annually. In the circumstances, it is not considered advisable to adopt the criterion of wordage supplied or used as the basis for fixing payments to News Agencies by All India Radio.

2. No News Agency was being paid by AIR on the basis of the number of licences, except the Press Trust of India, who were being paid upto the 31st March, 1956, on a slab system based on the number of licences. The Press Commission who went into the question of payments to News Agencies at length, made a comparison of the payment made by the BBC to the Reuters on the basis of a proportion between newspaper copies and receiver sets and recommended that, having regard to the revenue they expected from newspapers and other considerations, a flat rate of As. 10 per receiver set should be given to the Press Trust of India plus the amount fixed, *ad hoc*, for external services. The Press Commission also drew attention to the need for providing some relief to the smaller newspapers in the matter of the charges which they had to pay to the Press Trust of India for the services provided by the latter. Negotiations were thereupon conducted with the Press Trust of India in the light of the Press Commission's observation, and as a result, it has been decided to pay Press Trust of India a sum of Rs. 6,50,000 per annum for the year 1955-56, 1956-57 and 1957-58. For the year 1955-56, the payment was reduced by Rs. 25,000 for the regional news service which P.T.I. had not supplied to All India Radio and by another reasonable reduction in respect of the relief to be given to smaller newspapers. In respect of the years prior to 1955, the P.T.I. were to be paid whatever was due to them under the arrangement then existing. The amount to be paid as subscription for the year 1954-55 is still under consideration.

It will be seen that no News Agency is now being paid by All India Radio strictly on the basis of number of radio licences although the increase in the number of licences has been taken into account.

The basis of subscription is generally arrived at on the following considerations:—

- (1) the scope and utility of the service.
- (2) the standing of the agency and its reputation; and
- (3) the general level of the subscription paid for the same service by newspapers.

R. K. RAMADHYANI,
Secretary.

APPENDIX LXXIV

No. Fy. I-1 (64) /55.

New Delhi, the 30th January, 1957.

Note from the late Ministry of Production pursuant to action taken on para 81 of the Fifteenth Report regarding lump sum contracts.

The undersigned is directed to refer to paragraph 81 of the 15th Report of the Public Accounts Committee relating to lump sum contracts and to say that the circumstances relating to the particular lump sum contract for the piping system in the Sindri Power Station had been explained in a note submitted to the Committee with reference to Para 5(a) (i) of the Audit Report, (Civil) 1952, Part-I. This Ministry has nothing to add to the explanations given in that note.

As regards the Public Accounts Committee's disapproval of lump sum contracts in general, this Ministry has consulted the D.G.S.&D. and the Central P.W.D. and find that both these organisations do enter into lump sum contracts. The Central P.W.D. have a standard form for the purpose of inviting tenders on lump sum basis. In this form, contractors are required to quote the lump sum amount on the basis of detailed drawings and specifications. The agreement form provides that the final bill of the work would be based on the lump sum tender, modified, where necessary, to give effect to omissions, additions or variations from the prescribed drawings, specifications and instructions, detailed measurements of such omissions, etc. being recorded.

In the circumstances explained, it is proposed to communicate the observation of the Public Accounts Committee disapproving of lump sum contracts in general to all the Ministries of the Government of India and to the various attached and subordinate offices and industrial undertakings under the control of this Ministry with the request, that whenever lump sum contracts are entered into, all possible safeguards to protect the interests of Government should invariably be provided in the conditions of contract. A schedule of quantities of important materials like steel, cement etc., that may be used in the contract work, should form an essential part of the contract, which should contain an escalation clause by which Government may get the benefit of any saving in the quantities of the materials actually used in execution.

B. S. GREWAL,
Joint Secretary.

APPENDIX LXXV

Note from the Ministry of Commerce and Industry pursuant to action taken on paras 18 and 19 of the Sixteenth Report regarding Import of artificial silk yarn from Japan.

During the year 1947-48, there was an acute shortage of all types of cloth in the country and prices of these articles were very high. Several measures had, therefore, to be adopted to increase the supply of cheap cloth. One of these measures was the import of 28 lakhs lbs. of Art Silk Yarn from Japan on Government account. The first consignment of 22 lakh lbs. arrived in India in December, 1947. The second consignment of 6 lakh lbs. arrived in July, 1948. Arrangements for the distribution of this Art Silk Yarn had been previously entered into with the buyers of the material in the country. The yarn was allocated to Textile mills, the Handloom industry and silk mills through the Silk Directorate.

2. The landed cost of the material was determined at Rs. 5-1-6 per lb. The selling price of the material in the internal market was round about Rs. 6-8-0 per lb. Government, however, deliberately fixed the price of imported yarn at Rs. 5-1-6 per lb. in order that the manufactured goods might be sold at comparatively lower prices commensurate with the lower cost of the yarn supplied by Government.

3. The second consignment of 6 lakh lbs. arrived in July 1948. Government was able to dispose of only a portion of this consignment at the contracted rate of Rs. 5-1-6 per lb., as prices of Art Silk Yarn in the internal market had meanwhile fallen and the allottees refused to lift their allotments of Art Silk Yarn. The balance had to be sold by auction at below cost price which resulted in a loss of Rs. 2,14,592 to the Government. The Government, nevertheless, made a profit of Rs. 37.78 lakhs on the entire transaction.

4. The Public Accounts Committee have made the following further observations:—

- (i) The Committee find themselves unable to accept the claim of the Government that the supply of the imported yarn to the mills and handloom weavers at a rate lower than the prevailing market rate had brought down the price of yarn.
- (ii) The loss of Rs. 2.14 lakhs sustained in the sale of the second consignment of 6 lakh lbs. of yarn could have been avoided if moderation had been used in the grant of import licences. The liberal grant of licences was not called for particularly when Government had with them a little over 3 lakh lbs. of yarn for disposal.

- (iii) When it came to the notice of the Government that the allottees did not abide by the obligations placed on them to sell the fabrics at cheaper prices, Government should have considered the question of recovering from them the difference between the market price and the concessional price of the yarn.

5. With regard to point (i) above, attention is invited to the discussions which took place at the 9th sitting of the Public Accounts Committee on the 1st September, 1955, which was attended by Secretary on behalf of the Ministry of Commerce and Industry. An extract from the proceedings is reproduced below:—

“The Ministry’s representative went on to say that the real purpose of the import was to bring down the market price of Rs. 6-8-0 per lb. by selling the imported yarn at cost price and that in actual fact the market price did come down to Rs. 3-4-0 per lb. In answer to a query whether the price had not come down because of larger import by private parties from other countries, the representative of the Ministry said that the fall in price may be partly due to that and the two factors could be taken as having been responsible for the drop in market price.”

It will be observed that the Ministry did not claim that the fall in prices was solely due to the imports on Government account. The Ministry only claimed that this was *one of the factors* which helped to bring down the prices. It was admitted that the fall in prices was partly due to imports by private parties from other countries also.

6. As regards (ii), it may be pointed out that during 1947, there was an acute shortage of cloth in the country and Government were making all possible efforts to bring down the prices, and order for this yarn from Japan was placed in December 1947. Normally, the entire quantity should have come in one consignment, but unfortunately it arrived in two—the first in December, 1947 and the second in July, 1948. The 2nd consignment of 6 lakh lbs. did not arrive simultaneously with the 1st consignment of 22 lakh lbs. in December, 1947 on account of non-availability of shipping space. The first consignment was distributed immediately on arrival at prices below the ruling market rates, but sufficient to cover all incidental costs in order to enable the manufacturers to reduce the selling price of finished fabrics.

7. The yarn position in the country continued to be unsatisfactory even towards the end of the first licensing period in 1948. It was necessary to take steps to ensure adequate supplies of yarn, and a liberal policy of imports was, therefore, decided upon and announced in July, 1948. Since the disposal of the first consignment of Government imported yarn had presented no difficulty, the yarn bought on Government account was not considered sufficient reason for restricting imports. Government could not at that time anticipate that the 3 lakh pounds out of the second consignment would not be lifted by the allottees at the contracted price. In any case, considering

our pre-war imports of 250 lakh pounds, and the present scale of imports of nearly 450 lakh pounds, the unsold quantity of imported yarn of 3 lakh lbs. represented indeed only a small portion of our requirements.

8. With regard to point No. (iii), the yarn was sold at a concessional price on condition that the "Price of the finished products should be commensurate with the price of art silk yarn released." Apart from this general condition, no specific, or legally enforceable condition was laid down.

Government, however, did not take up the question of demanding an additional price from the allottees as the yarn was distributed to different classes of consumers, namely handloom weavers, powerloom weavers and textile mills. The complaint that prices were not reduced was reported in the case of Textile Mills. Only two lakh lbs. of art silk yarn was allotted to the Textile mills out of the total imports of 28 lakh lbs. This quantity was only 1/8 of their normal requirements of art silk yarn. It was, therefore, extremely difficult to insist on the mills bringing down the prices of their cloth.

S. RANGANATHAN,
Secretary.

NEW DELHI;

The 22nd October, 1958.

APPENDIX LXXVI

Note from the Ministry of Commerce and Industry pursuant to action taken on para 27 of the Sixteenth Report regarding continued loss in Trade Marks Registry.

At a meeting held in July 1951, to examine the appropriation accounts of 1948-49, the Public Accounts Committee desired to know why the expenditure on the Trade Marks Registry, Bombay was in excess of the receipts and what action had been taken to reduce it. The Committee also suggested that, if necessary, the scales of fees levied under the Trade Marks Act should be suitably raised so as to make the organisation self-supporting. Since then these questions have been under consideration of the Government of India and the Committee was last informed in 1954 that the question of enhancing the rates of fees levied under the Trade Marks Act, 1949, would be examined along with the recommendations of the Trade Marks Enquiry Committee, which was appointed by the Government of India in 1953 to review the Indian laws bearing upon trade marks and merchandise marks and to suggest suitable amendments thereto.

2. However, the Public Accounts Committee in their Sixteenth Report, have remarked that they are unable to understand why this question should be examined along with the recommendations of the Trade Marks Enquiry Committee, particularly when the Committee had not at all touched upon this aspect. The Public Accounts Committee have, therefore, urged upon the Government the necessity of considering the question of revising the scales of fees independently and come to a final decision at an early date.

3. The question as to whether the fees charged for various proceedings under the Trade Marks Act should be such as to make the Trade Marks Registry self-supporting has been examined before. Registration and protection of the trade marks primarily serve the interests of the commercial community and it can be argued that the charges levied on the community should be sufficiently high as to pay for the cost of the services rendered. Registration, however, exercises a wholesome and stimulating influence on the trade and commerce of the country in general and thus serves the interests of the public also. The Trade Marks Registry is more a utility service than a strictly commercial service and it is not unreasonable that a part of the cost of the Trade Marks Registry should be met from general revenues, if necessary. Further, with the progress of industrialisation, the revenues from these proceedings are expected to increase.

4. The Trade Marks Registry is concerned largely with protection of industrial property. Protection of industrial property covers patents, utility models, industrial designs or models, trade marks, trade names, indication of source or appellation of origin and repression of unfair competition. There are two organisations under this

Ministry dealing with protection of industrial property, viz., Trade Marks Registry and the Patent Office. It will, therefore, be appropriate if the question of self-sufficiency were examined with reference to the income and expenditure of these two offices together.

5. The receipts and expenditure of the Trade Marks Registry and the Patent Office during the last seven years have been as under:—

TRADE MARKS REGISTRY

<i>Year</i>	<i>Receipts</i>	<i>Expenditure</i>
	<i>Rs.</i>	<i>Rs.</i>
1949-50	9,53,739	6,86,091
1950-51	7,02,942	6,85,524
1951-52	6,35,352	7,13,984
1952-53	5,00,792	7,51,947
1953-54	4,79,513	7,92,260
1954-55	4,44,276	7,98,691
1955-56	5,26,192	7,86,685
TOTAL	42,12,806	52,17,182

PATENT OFFICE

1949-50	5,77,584	3,59,459
1950-51	6,39,407	3,73,388
1951-52	6,43,137	4,05,564
1952-53	6,84,415	4,24,180
1953-54	7,25,358	4,56,569
1954-55	7,78,627	4,46,527
1955-56	8,35,512	4,97,723
TOTAL	48,84,040	29,63,410

6. The total receipts and expenditure of these two organisations taken together during the period of 7 years works out as follows:—

	<i>Receipts</i> <i>Rs.</i>	<i>Expenditure</i> <i>Rs.</i>
Trade Marks Registry	42,12,806	52,17,182
Patent Office	48,84,040	29,63,410
TOTAL	90,96,846	81,80,592

It will be seen from the above that if the two organisations are taken together, the receipts cover the entire expenditure and yield some surplus in addition.

7. The Government of India have accordingly come to the conclusion that there is no strong justification for enhancing the fees charged under the Trade Marks Act. It may be added here that this Ministry has a proposal to amalgamate the two organisations, viz., Trade Marks Registry and the Patent Office—dealing with industrial property.

K. V. VENKATACHALAM,

Joint Secretary.

The 2nd March, 1957.

APPENDIX LXXVII

Note from the Ministry of Commerce and Industry pursuant to action taken on para 110 of the Sixteenth Report regarding Hindustan Machine Tools Ltd.

(No. 15|33|57-MT.)

Even before the presentation of the 16th Report of the Public Accounts Committee to Parliament, the Ministry of Commerce and Industry had, in January 1956, set up a Committee to consider the problem of the development of the machine tool industry in all its aspects. The Committee was constituted under the chairmanship of the Director, Scientific and Industrial Research, and consisting of senior officers of Government as well as senior representatives of the Indian Machine Tool Manufacturers' Organisation. The terms of reference of the Committee were as follows:—

- (i) To review the existing capacity to manufacture machine tools in the private and public sectors and study their plans for further expansion.
- (ii) To assess the country's requirements of machine tools in the different categories and determine the gap between requirements and present manufacturing capacity.
- (iii) To investigate causes responsible for impeding faster development of the industry and suggest how they can be eliminated.
- (iv) To suggest ways and means of utilising the existing capacity fully and developing it further to meet the requirements of the country for machine tools, as assessed by the Committee and to report whether, after ensuring such full utilisation there is any necessity to set up new units—and if so, to indicate the size and scope of such units.
- (v) To review the existing capacity to design machine tools, to survey the facilities available for training machine tool designers and to suggest ways and means of helping the industry in securing training facilities at home and abroad for such staff.
- (vi) To study the range of general purpose machine tools required by the various Departments of Government with a view to standardising the most widely popular requirements, and to examine the feasibility of other Government Departments using similar machines and adopting them as their standards. In carrying out this examination, the Committee will take particular note of the standardisation work already completed by the Railways.

(vii) To suggest the machinery for laying down the standards of performance and the specifications for inspection of the final product in order to ensure that the product measures up to the required quality, and to recommend the most suitable organisation for testing and certifying the products as conforming to the prescribed quality specifications.

(viii) To investigate and report on such other matters as the Committee may think fit regarding the development of the Machine Tool Industry in India.

2. The Committee submitted their report to Government in September, 1956. The Committee estimated the volume of demand for various kinds of machine tools in the country by 1960-61 and recommended a detailed plan and programme of manufacture for the various units to utilise the existing capacity in the machine tool industry. A copy of the programme of manufacture as recommended by the Committee is enclosed (Annexure I). This programme has been accepted by Government for immediate working, excepting in the case of Messrs Hindustan Machine Tools (Private) Ltd., in which certain minor alterations were made. A statement showing the production programme recommended for Messrs Hindustan Machine Tools (Private) Ltd., and the programme as accepted by Government is also enclosed (Annexure II).

3. The Committee further recommended the establishment of a standing body to co-ordinate the activities of different manufacturing units producing machine tools and for ensuring faster development of the industry. Government accepted this recommendation and constituted a Development Council for the Machine Tool Industry under the Industries (Development and Regulation) Act, 1951. This Council consists of representatives of the machine tool units in the country, persons having special knowledge of the technical and other aspects of the machine tool industry, representatives of consumers and representatives of employees in the industry. One of the specific functions of the Development Council is to recommend targets for production, co-ordinating production programmes and reviewing the progress of the industry from time to time.

4. It will, therefore, be seen that action in respect of Recommendation No. 78 has been taken by Government.

A. ZAMAN,
Joint Secretary.

NEW DELHI;

Dated the 7th February, 1958.

ANNEXURE I

Statement showing the programme of manufacture of Major Units in the Public and Private Sectors as recommended by the Machine Tool Committee.

Name of the firm	Item of manufacture	Priority
Messrs :—		
Cooper Engg. Ltd.	Gear shapers upto & including 32" stroke. (Gradual changeover from cone-pulley to geared head).	I
	Planers, upto and including 6' × 6' × 16' table.	II
	Slotters, upto & including 21" stroke	III
Hindustan Machine Tools (P) Ltd.	Lathes 17" Swing, present and allied models.	I
	Milling machines (Nos 2 & 3) Plain, vertical, Universal & Manufacturing millers (Heavy type)	II
	Grinding machines, OD, Universal & ID	III
	Radial Drilling machines 2" and above	IV
	Lathes, 20" to 28" swing.	V
	Production Jig borers.	VI
	Lathes (other types) capstans and turrets.	VII
Investa Machine Tools & Engg. Co. Ltd.	Drills, pillar 1½" to 2"	I
	Drills, column upto 3"	II
	Drills, Radial below 2"	II
Machine Tool Prototype Factory.	Lathes, Geared head 10" Swing	I
	Lathes, Capstan 1½"	II
	Grinders, Surface 18" and 24"	III
	Grinders-Tool & Cutter	IV
	Lathes-Capstan 1½"	V
Mysore Kirloskar Ltd.	Lathes—12" to 28"	I
	Lathes-Capstan 1½"	II
	Lathes-Capstan 2½"	III
	Lathes-Turret 3½"	IV
Praga Tools Corporation Ltd.	Drills Bench	I
	Drills pillar 1" & 1½"	II
	Mills No. 1	III
	Lathe Bench	IV

ANNEXURE II

Comparative statement showing the production programme for Hindustan Machine Tools (P) Ltd., Bangalore as recommended by the Machine Tool Committee and accepted by the Government.

Programme recommended by the Machine
Tool Committee

Programme accepted by the Government.

Lathes 17" Swing, present and allied models
Milling Machines (Nos. 2 & 3) Plain, Vertical
Universal & Manufacturing millers (heavy type)
Grinding machines, OD, Universal & ID.
Radial Drilling machines 2" and above.
Lathes, 20" to 28" swing.
Production jig borers.
Lathes (other types) capstans and turrets.

H-22L athes
Nos. 2 & 3 Milling Machines.
Radial Drills 1½" & 2".
8½" Centre Medium Duty Lathe.
12½" Centre Heavy Duty Lathe.
In addition, the HMTL may also take up for
manufacture, as and when necessary, light
and medium duty lathes of sizes 6" to 8"
height of centre, with medium and high
speeds for use with tungsten carbide tools
also milling machines, light duty, and
drilling machines, Pillar type.

APPENDIX LXXVIII

Memorandum from the late Ministry of Production pursuant to action taken on para 111 of the Sixteenth Report regarding Penicillin Factory, Pimpri.

No. BGT-4(15)/56

Dated, the 21st November, 1956

The undersigned is directed to refer to item 79 of the Summary of the main conclusions/recommendations made by the Public Accounts Committee in the above report and to say that the recommendations have been implemented. There is a regular cost accounting system introduced and in force and it is confirmed that while calculating the cost of production all facts including the expenditure on the Housing Colony, Research Work etc., are being taken into account by the Company as has been suggested by the Public Accounts Committee.

S. JAGANNATHAN,
Joint Secretary.

APPENDIX LXXIX

Note from the Ministry of Commerce and Industry pursuant to action taken on para 21 of the Twenty-third Report regarding uneconomic purchase of printing machines.

In Para 21 of the Twenty-third Report on the Appropriation Accounts for 1952-53, the Public Accounts Committee desired this Ministry to take the following action in regard to the purchases of printing machines made by the High Commission of India in London in 1950:—

- (i) to state the special reasons for by-passing the Director General, India Stores Department.
- (ii) to initiate disciplinary action against the officers responsible for the purchases of the machines for their negligence in not giving adequate thought before making the purchases.

2. It is now revealed from the information since furnished by the High Commission of India in London that these machines were purchased out of the budgetary allocation available to the Commercial Department of the High Commission for "Contingencies". These allocations are usually expended at the discretion of the Head of Department, subject to the approval of the High Commissioner, where necessary. In the absence of any special ruling or order making it obligatory to consult the Director General, India Stores Department, the purchases of furniture, stationery, typewriters and duplicators or any proprietary article required for use in the various departments of the High Commission were made by the Establishment Department (then General Department) out of these allocations without reference to the India Stores Department. The purchases of these printing machines were accordingly made in the ordinary and normal way, by the then Commerce and Industries Adviser with the approval of and under the orders of the High Commissioner.

(i) As regards consultation with the Director General, India Stores Department on the technical aspects of the purchase of the machines, it may be stated that these machines were standard equipment such as typewriters or duplicators and could be simply operated. In practice, in fact, these were operated by non-technical personnel and until the time of sale, no technical difficulties of any kind were experienced.

The Ministry of External Affairs have already issued instructions in their memo. No. F.4-18/Aud-54, dated the 28th January, 1955 for utilising the agency of the India Stores Department in making all future purchases.

(ii) As regards the question of disciplinary action, the decision to purchase these machines was taken after discussions between the High Commissioner and the Commercial Adviser in the case of Maseeley Machine, and in the case of the Reto-print Printing

Machine, all the departmental heads including the India Stores Department, were present when it was decided to go in for its purchase. The purchases were made with the *bona fide* object of securing efficiency, economy and expedition and there was no *male fide* intention on any body's part. It was considered that the entire cost of the machines could be made good by the saving in a couple of years' working. It was also intended to save money by doing work on the machines for other departments of the High Commission. Thus every effort was made to utilise the machines to the fullest advantage and as soon as it was found that sufficient amount of work for their fuller utilisation did not materialise, as was originally visualised, it was decided to dispose of them to the best advantage of Government. No negligence could, therefore, be brought home to any officer or officers.

S. RANGANATHAN.
Secretary.

NEW DELHI;
The 1st February, 1958.

APPENDIX LXXX

No. 17(21)-TEX(A)/56

New Delhi, dated the 5th August, 1957

Statement of the case and the opinion of the Solicitor General of India pursuant to action taken on paras 27 and 28 of the Twenty-third Report regarding payment of subsidy for American Cotton to a Mill, as furnished by the Ministry of Commerce and Industry.

At the meeting of the Public Accounts Committee held on the 8th November, 1956 the Committee referred to Solicitor General's opinion on the question of recovery of the subsidy paid to the Madura Mills and desired that the point whether the Textile Commissioner was within the powers delegated to him, in permitting the mills in question to spin yarn of higher counts out of the American cotton, should be referred to the Solicitor General again. Accordingly, a statement of case was sent to the Solicitor General for his opinion on the following two points:—

- (i) whether the Textile Commissioner exceeded his powers;
and
- (ii) even if he did, whether the mills have rendered themselves liable for any refund, if, as they will claim, they acted *bona fide*.

2. Copy of the statement of case and opinion of the Solicitor General are attached.

S. RANGANATHAN,
Secretary.

Statement of case for the opinion of the Solicitor General of India.

In regard to the subsidy granted by the Government of India to the Madura Mills Co. Ltd., for import of American cotton during the latter half of 1950 a question arose about refund of a part of the subsidy, and the Solicitor General will recollect the opinion given by him that legally the Government had no case for refund of the subsidy. A copy of the opinion is at page 64 in the file below and the statement of case is at page 1 ff. in the file. Subsequently, the matter was before the Public Accounts Committee of the Parliament, and as desired by that Committee the Solicitor General is requested to advise on the following further points:—

- (1) whether the Textile Commissioner exceeded his powers;
and
- (2) even if he did, whether the Mills have rendered themselves liable for any refund, if, as they will claim, they acted *bona fide*.

2. With regard to the first point, there is first the note recorded by the Textile Commissioner on 6th October, 1950 (page 84 in the file below) and, thereafter, there is a formal Order under the Cotton Textiles (Control) Order, 1948, by the Director (Production) of 10/11th October, 1950. The Cotton Textiles (Control) Order is at pages 71—80 in the file and the said formal order is at page 85.

3. The said formal order may be considered first. Clause 20B(iii) of the Cotton Textiles (Control) Order, 1948, provided that “no producer shall produce any yarn from a mixture of Indian cotton with foreign cotton”. Clause 33 of the same Order, however, conferred power on the Textile Commissioner (i) to grant relaxation, by general or special permit, from any provision of the Order, in respect of any person, act or thing, and (ii) to impose conditions, limitations or restrictions in such a permit. Finally Clause 34 of the Order permits the Textile Commissioner with previous sanction of the Central Government to delegate any of his powers under the Order to any Officer. In this case, by the notification No. 9(9)Tex-I/48, dated the 15th July, 1950 (page 83 in the file) the Textile Commissioner delegated to the said Director (Production) the functions and powers of the Textile Commissioner under Clause 33 with respect to Clause 20B of the Order. In the Order of 10/11th October, 1950, the Director (Production), in pursuance of the powers so delegated, stated “I hereby exempt the Madura Mills Co. Ltd., from compliance with the directions contained in Clause 20B(iii) of the Cotton Textiles (Control) Order, 1948, and permit them to spin yarn from an admixture of Indian cotton and subsidised American cotton” provided a certain condition was fulfilled. Clause 33 does not contain any limitation on the powers of the Textile Commissioner in granting relaxations from any provision of the Control Order. It should, therefore, appear that, as a matter of law, the Director (Production) was competent to grant to the Madura Mills the exemption contained in his order.

4. In the note recorded by the Textile Commissioner on 6-10-1950, it is stated that Mr. Marshall contended that he would experience difficulty "in isolating the subsidised American cotton from the general mixings which were being used for manufacturing all counts of yarn both for domestic consumption and for export". It is further stated that at first the Textile Commissioner authorised Mr. Marshall "to use subsidised American cotton in the general mixings" and that later Shri Venkataraman confirmed that "there could be no objection to the utilisation of the American cotton along with other Indian cottons". What Clause 20B(iii) of the Cotton Textiles (Control) Order prohibits is the mixture of Indian cotton with foreign cotton and in view of the Textile Commissioner's powers under Clause 33, he should be deemed in law to have been competent to authorise Mr. Marshall to use subsidised American cotton in the general mixings.

5. The Textile Commissioner's note of 6th October, 1950, and the Director's formal order of 10th October, 1950, both imposed a condition subject to which the exemption had been granted from the provisions of Clause 20B(iii). There may be a question whether this condition was adequate or was adequately expressed. But the adequacy or otherwise raises only the question whether the Textile Commissioner in laying down the condition fully safeguarded the intentions of the subsidy scheme. It does not raise any question about the Textile Commissioner's powers, and the issue at present is only about the powers.

6. Counsel is requested to consider the discussion in paras 2 to 5 above and to state if, as a matter of law, the Textile Commissioner can be held to have exceeded the powers conferred on him by the Cotton Textiles (Control) Order, 1948.

7. If the answer to the first of the two points mentioned at the commencement of this statement is in the negative, the second point would not appear to survive. It may nevertheless be observed that the condition expressed in the order of 10/11th October, 1950, is only as regards the quantity of yarn that should be made available to the domestic market. There is no limitation expressed therein as to the counts for which the admixture may be made. In fact the note of 6th October shows that Mr. Marshall in explaining his difficulty had referred to "manufacturing all counts of yarn both for domestic consumption and for export". The note means that Mr. Marshall's request was granted fully and that there was no limitation as regards the counts for which the admixture was permitted. Counsel is requested to consider whether this conclusion is correct. If it is considered on a true interpretation of the note and the permission described therein, that there was no restriction on Mr. Marshall as regards the counts to be spun from any admixture, the action of the Mills would appear to be within the permission of 6th October, 1950, and the order of 10/11th October, 1950. Counsel is requested to give his opinion about the said second point as discussed in this paragraph.

8. If the Textile Commissioner had certain powers for the purposes of the Cotton Textiles (Control) Order, 1948, administratively he had also authority to give effect to the subsidisation scheme. It is, therefore, possible to consider the question of his powers not only from

the legal point of view as has been done in paras 2 to 5 above, but also from the administrative one. Any permission which he was competent to give under the Cotton Textiles (Control) Order could not ignore his administrative responsibilities as regards the subsidisation scheme. The permission granted could, therefore, also be examined with a view to find out if it was consistent with the subsidisation scheme.

9. The subsidy was sanctioned by the Ministry of Industries and Supply's letter of 18th July, 1950 (pages 7-8 in the file) which states that the President is pleased to accord sanction to a subsidy scheme "in order to maintain the production of medium counts of yarn for supply to the handloom industry". Among the terms and conditions of the scheme as stated in the said letter, one condition is to the effect that "yarn produced from the cotton herein allocated will have first to be offered to the Textile Commissioner and will be subject to disposal by the Mills in accordance with such instructions as he may from time to time give". The question thus is whether the permission for the admixture even for the yarn which was higher than medium counts or which was meant for export was covered by the scheme sanctioned by Government on 18th July, 1950. It seems that as regards use of the American cotton for admixture for the purposes of yarn which was higher than medium counts or which was meant for export, the Textile Commissioner's authority should be considered to depend only on what is contained in the confirmation by Shri Venkataraman as stated in the note of 6th October, 1950. Shri Venkataraman was then the Commerce Secretary and his authorisation for anything should be deemed to be conclusive.

10. The second of the two points mentioned at the commencement of the statement may be considered in relation to this other aspect of the powers also. Here also in view of the confirmation by Shri Venkataraman, the point should not survive. Assuming, however, that the Textile Commissioner himself is to be held responsible for the permission given to the Mills, the question will be whether the Mills acting *bona fide* under the permission should be held to have rendered themselves liable for the refund because of the defect in the Textile Commissioner's authority. The reasonable view probably is that the Mills are not supposed to be aware of the authority contained in the letter of 18th July, 1950, for any Government officer and they were entitled in law to presume that the Textile Commissioner had authority to grant the permission, even for the purposes of the subsidy scheme.

11. Counsel is requested to give his opinion with regard to the matter discussed in paras 9 and 10 above as well.

12. Briefly Counsel is requested to give his opinion on each of the two points referred to at the end of the first paragraph above (a) for the purposes of the Cotton Textiles (Control) Order, 1948, as discussed in paras 2 to 7 and (b) having regard to his administrative responsibilities, as discussed in paras 8 to 10 above.

G. S. GAITONDE,

Deputy Secretary, Ministry of Law.

The 25th March, 1957.

Re: Subsidy to the Madura Mills Co. Ltd., for import of American Cotton

OPINION

The subsidy scheme was put into effect in order to substitute foreign, i.e., American cotton for Indian cotton which was not then available, so that the mills would pay roughly what they would have paid for Indian cotton, the difference in price being made up by the Government of India. The object was to make available to the handloom industry yarn of certain counts which would, in the ordinary course, have been made from Indian cotton.

The Cotton Textiles (Control) Order of 2nd August, 1948, as it stood in October, 1950, provided by clause 20(b) (iii) that "no producer shall produce yarn from a mixture of Indian cotton with foreign cotton." The subsidy scheme did not, in itself, involve the admixture of foreign cotton with Indian cotton. The Madura Mills, however, made certain representations as a consequence of which they were allowed to mix the subsidised foreign cotton with other cottons. This exemption could, in law, be granted since clause 33 of the Cotton Textiles (Control) Order provided that (1) "The Textile Commissioner may, by a general or special permit, exclude from or modify or relax to such extent as may be specified by him, the operation of any such provision in respect of any person, act or thing or any class of persons, acts or things." and (2) "The Textile Commissioner may in any such permit impose conditions, limitations and restrictions subject to which such permit shall have effect." Accordingly, the Textile Commissioner or any Officer to whom under clause 34, he delegated his powers, could make an exception even in the case of an individual Mill or Concern in regard to any of the provisions of the Act. The terms of clause 33 are very wide and confer an absolute discretion upon the Textile Commissioner or his delegate to make a general or specific exemption and to impose as a condition of such exemption, such conditions as he thought fit. It was upon this that Mr. Barat gave oral permission over the telephone which was acted upon and subsequently on the 10th October, a formal order was made by Mr. Shah (Production) to whom the Textile Commissioner, Bombay, had duly delegated powers—permitting the Madura Mills to spin yarn from an admixture of Indian cotton and subsidized American cotton, provided that a minimum quantity of yarn of appropriate counts equivalent to the production from subsidized American cotton content of the mixings is made available to the domestic market. There was no limitation imposed as to the counts to be spun out of the particular cotton and when the order is read along with the representations made, it is clear that the Mills were allowed to use the subsidized cotton for all purposes including export. In my opinion, the Textile Commissioner was well within his powers, in the first place, in according oral permission, and in the second place, authorising the issue of the formal order of the 10th October

which was issued by Mr. Shah under powers duly delegated to him under clause 34 of the Cotton Textiles (Control) Order. The imposition of the condition as to the production of a minimum quantity of yarn of appropriate counts equivalent to the production from subsidized American cotton content of the mixings being made available to the domestic market, was also legitimate.

The exemption given to the Madura Mills and the condition imposed were not inconsistent with the subsidy scheme, the object of which was to provide a certain quantity of yarn for the handloom industry and it may well be said that so long as that object was achieved to the full which was ensured by reason of the condition imposed, it did not matter what other consequences might follow. The Madura Mills apparently by reason of its size, magnitude of production and considerable exports possibly stood in a position different from the generality of the Mills taking part in the subsidy scheme. The Textile Commissioner had a discretion to accept the representations made as true (and indeed there is no reason to suppose that they were not) and to make the order as he did, in furtherance of the scheme of supply to the handloom industry. He had further the approval of Mr. Venkataraman, the Secretary, Commerce and Industry. It appears to me that the Textile Commissioner had not only the authority in law to make the exemption, but that in the circumstances, administratively he would appear to have had justification for acting as he did.

A question has been asked whether if he exceeded his powers, the Mills rendered themselves liable for refund. In the view, I have taken of the Textile Commissioner's authority and his exercise of it, this question does not arise. But assuming that he exceeded it, the Mills would say that they were entitled in the ordinary course of commerce to take the order as being within the Commissioner's powers. The refund asked for would be of the profit made by the Mills on the export sale of finer counts. I am unable to see on what basis the amount could be claimed, since Government suffered no damage. As I have said before there may be a moral claim but not a legal one.

C. K. DAPHTARY,
Solicitor General of India.

NEW DELHI;
The 7th July, 1957.

APPENDIX LXXXI

Note from the Ministry of Education pursuant to action taken on para 41 of the Fifteenth Report regarding Working of Hostels.

(i) (a) At the time of closing down the Blackford Mount Hostel on 31st July, 1948, it was in view that a suitable hostel would be provided at a more central and convenient position. As the sale of the second hand furniture of the Blackford Mount Hostel would have naturally fetched a low price, it was considered desirable from the financial point of view to store the furniture in question till the acquisition of the new hostel. The expectation regarding the new hostel did not, however, materialise and when it was definitely known that the old furniture would not be utilized in this manner, the High Commission for India in London approached the Government of India for orders regarding its disposal in November, 1950. The Government of India, Ministry of External Affairs, then suggested that the furniture could be utilized with advantage for a building to be used by the Indian Officers on Deputation in the U.K. for which that Ministry had already sanctioned £5,750 for the purchase of new furniture. This suggestion again was made from the financial point of view, but the High Commission reported that the furniture in question was not fit to be utilized. Accordingly, it was decided to dispose of the furniture in the usual way and the High Commissioner informed of the decision in January, 1952. The furniture was, however, actually auctioned on 8th August, 1952. As the intention underlying the storing of the furniture was all along to effect saving to Government by proper utilisation of the old furniture—although unfortunately the expectation did not materialise—it was not considered necessary to take action regarding fixing of responsibility for the delay in the disposal of the furniture. The High Commission has, however, been requested to see that in future expeditious action is taken in such matters to ensure that avoidable expenditure on storage is not incurred for a long time on mere expectation.

(b) The hostel was actually closed on 31st July, 1948, as decided by the Government. There was thus no delay in the implementation of the decision. The 10 months mentioned in sub-para 5 of para 12(i) of the Audit Report (Civil) refer to the period 1st October, 1947, to 31st July, 1948.

(c) In fact, the intention of the High Commission in not selling out the furniture in 1948 was that it would not have fetched a high price for the reason of its being second hand. On the other side, it was expected that its utilisation for the other hostel in a more central and convenient position which was then in view, would fetch a much better value in the shape of saving to Government of the cost of new furniture for the other hostel. Although the expectation could not materialise, yet the High Commission had surely acted with an idea of ultimate economy to Government.

(d) The exact details of £312 are not available in the Ministry and will be called for from the H.C., if the Committee so desires. The amount presumably relates to the usual registration charges, stamp duty, etc., on the occasion of acquisition of the premises for the hostel.

(ii) (a) The purchase was made on behalf of the Government of India by Mr. M. K. Vellodi, the then Deputy High Commissioner for India in London, in consultation with Mr. Price who was deputed by the then Finance Department to look into accommodation arrangements in London. The work regarding repairs and redecoration of the premises was entrusted to the Ministry of Works of the British Government in London.

(b) The payment of £1536-2-0 has not yet been regularised. The full details are awaited from the High Commission on receipt of which necessary investigations will be made.

(c) A reference was made to the High Commission in London requesting them to examine whether reimbursement to the Government of India of the charges paid on account of rates, is due from the Ministry of Works (U.K. Government) according to the Law then obtaining in the U.K. The High Commission has explained that in view of the fact that the rates in question related to a period prior to the introduction of the concession of reimbursement of such charges, the question of reimbursement did not arise in this case.

HUMAYUN KABIR,
Secretary.

In continuation of the remarks given against item (b) below para 12 (ii) in Education Secretary's note dated 24th November, 1955, for the Public Accounts Committee (already furnished to the Lok Sabha Secretariat, *vide* this Ministry's Memorandum No. D. 1836/55-A7, the 24th November, 1955) and with reference to the observations of dated the 24th November, 1955) and with reference to the observations of the Committee contained in item 3 (ii) of the Summary pertaining position after investigation of the case is given below for perusal of the Committee:—

- (i) In May, 1953, the audit objection regarding Bays-Water Hall Hostel (Payment to London University of £1536-2-11 and disposal of furniture of Hostel) was communicated to Education Ministry by the Auditor of Indian Accounts in the U.K. who also informed the Ministry that the comments of the High Commission were awaited.
- (ii) In June, 1953, an audit para was proposed by the Accountant General, Central Revenues.
- (iii) Even before the receipt of the audit objection from the Auditor of Indian Accounts, London, and the audit para from the Accountant General, Central Revenues, the Education Ministry wanted to satisfy itself regarding the financial aspect of the working of the Hostel and had called for, as early as in January, 1953, detailed information and complete accounts for the entire life of the

Hostel from the High Commission, London, before according sanction to the payment of the outstanding claims. The investigation of the case could proceed only on receipt of the detailed information and the complete accounts which were received from the High Commission only in May, 1954.

- (iv) In April, 1954, the accounts pertaining to the above were received from the High Commission.
- (v) In July and August, 1954, the results of the examination of the accounts by the Education Ministry were communicated to the High Commission. These mainly included three discrepancies, one relating to the disposal of furniture of the Hostel, the second relating to an error of £8-18-0 in the accounts and third to an inconsistency to the extent of £283-12-11 in the balance carried over from one year's accounts to another.
- (vi) In October, 1954, the High Commission was reminded by the Education Ministry for quick settlement of the discrepancies.
- (vii) In January, 1955, Ministry of Finance issued a d.o. letter to the Financial Adviser to the High Commission, London, requesting for immediate settlement of the discrepancies.
- (viii) In March, 1955, the High Commission was requested to furnish the relevant files and papers to Education Ministry, if it was unable to do anything there.
- (ix) In July, 1955, the High Commission explained the apparent shortages of furniture as due to the fact that the second hand furniture was distributed for use of the Indian Students Hostel in Guilford Street, the flats at St. George's Drive, the India Stores Department and the India House, since it was felt that the sale proceeds of the second hand furniture would not yield any substantial amount. Apart from the disposal of the furniture of the Hostel at the time of its closure, it was also revealed from a letter from the Matron of the Hostel addressed to the High Commission, London, that some shortages in articles of the furniture were due to (i) fair wear and tear and breakage, and (ii) a number of burglaries which resulted in the dismissal of certain staff of the Hostel, although there was no proof as to who was actually to blame.
- (x) In September, 1955, the High Commission was reminded for furnishing the files and papers to settle other discrepancies.
- (xi) Later in the same month, the Financial Adviser sent a reply to the d.o. letter issued by the Ministry of Finance *vide* (vii) above, stating that no investigation of the case was possible as the records of the High Commission were in a jumbled state.

- (xii) Early in January, 1956, the Auditor, Indian Accounts, London, was requested to look into the discrepancies and the High Commission directed to make all relevant records available to him.
- (xiii) Meanwhile, the High Commission despatched the current file pertaining to the Hostel by Sea Mail.
- (xiv) Late in January, 1956, the Auditor reported that responsibility for such verification rested with the Administrative Ministry and also pointed out that the file in question had been despatched by the High Commission to the Government of India.
- (xv) In February, 1956, the file in question was returned to the High Commission, as it was not useful for the purpose of locating the discrepancies, and the High Commission was requested to settle the discrepancies quickly with the help of the Auditor, Indian Accounts, London, and by reference to other relevant records.
- (xvi) In the middle of March, 1956, the Auditor and also the High Commission informed Education Ministry that the discrepancy of £8-18-0 had been located and was due to the inclusion of a provisional figure in the accounts instead of the final modified figure. The Auditor, however, again explained the fact that the verification of departmental figures was not his responsibility.
- (xvii) In April, 1956, it was felt that in view of the fact that the position regarding the disposal of furniture had been clarified that the discrepancy of £8-18-0 settled and that there was no possibility of getting the remaining discrepancy of £283-12-11 reconciled through the Financial Adviser or the Auditor or by the High Commission itself, the expenditure of £1536-2-11 which had been completely checked up but for the discrepancy of £283-12-11, should be regularised by Government by issuing an *expost facto* sanction. The intention of Government to regularise the position by the issue of an *expost facto* sanction was also communicated to the Lok Sabha Secretariat (Public Accounts Committee), *vide* remarks against item 31(ii) of the Annexure furnished with Education Ministry O.M. No. D. 1612/56-A.7, dated the 20th April, 1956.

2. It will be seen from the facts of the case detailed above that the Education Ministry had initiated action in the matter even before the receipt of the audit objection in May, 1953, and were closely watching the case, and have all along been pursuing it with the result that Government are now satisfied regarding the expenditure of £1,536-2-11 according to the terms of contract with the University, except for a discrepancy of £283-12-11, which could not be located or verified for want of complete and systematic

records in the High Commission, London. The observations of the Public Accounts Committee as contained in item 31(ii) of the Summary pertaining to the 15th Report have, however, been noted.

3. It is now proposed to regularise the position by issuing the *ex post facto* sanction mentioned above. A warning is also proposed to be issued to the High Commission regarding systematic maintenance of files and records and proper disposal of Government material.

APPENDIX LXXXII

Note from the Ministry of Finance (Rehabilitation Finance Administration) pursuant to action taken on para 11 of the Fifteenth Report regarding provision for bad and doubtful debts.

In terms of section 19 of the Rehabilitation Finance Administration Act, the Government on 31st May, 1952, issued a directive (copy enclosed) laying down the formula in consultation with the Comptroller and Auditor General of India for the purpose of making provision for bad and doubtful debts in the Accounts of the Rehabilitation Finance Administration. The Rehabilitation Finance Administration were instructed to continue these arrangements for making provision for bad and doubtful debts for five years, after which the percentage fixed will have to be reviewed in the light of the experience gained. This formula was explained to the Public Accounts Committee in our notes submitted *vide* our Office Memorandum No. F.6 (34)-FIII/54, dated the 20th November, 1954.

2. The observation of the Public Accounts Committee that against the amount of loans given in 1953, *viz.*, Rs. 24 lakhs a sum of Rs. 14 lakhs has been provided for 'bad and doubtful debts' has reference to the proceedings of the 10th sitting of the Committee held on Tuesday the 19th October, 1954, recorded in paragraph 220 of the Report, and appears to be based on some misunderstanding of the balance sheet of the Rehabilitation Finance Administration for the period ended 31st December, 1953, which was before the Committee. The correct position is that the *ad hoc* formula laid down in the directive required a total credit in the reserve for bad and doubtful debts of an amount of Rs. 35 lakhs. Since there was already a provision of Rs. 20,74,000 till the end of 1952, an additional amount of Rs. 14 lakhs had to be provided during the year 1953 to make up the difference. It will, therefore, be observed that the provision of Rs. 14 lakhs for bad and doubtful debts was not in respect of only the loans disbursed during 1953.

3. It has also been pointed out by the Rehabilitation Finance Administration that the figure of Rs. 24 lakhs as loans sanctioned in 1953 is incorrect and the correct figure of actual disbursement during the year was Rs. 71,74,000 in respect of loans sanctioned during 1953 while the total disbursements during the year amounted to Rs. 2,07,88,000.

4. This note has been vetted by audit.

M. R. BHIDE,
Joint Secretary.

No. 10(50)-F.I/5i.

GOVERNMENT OF INDIA

Ministry of Finance

DEPARTMENT OF ECONOMIC AFFAIRS

New Delhi, the 31st May, 1952.

From

S. K. Sen, Esquire,
Deputy Secretary to the Government of India.

To

The Chief Administrator,
Rehabilitation Finance Administration,
'M' Block, New Delhi.

SUBJECT:—*Provision for bad and doubtful debts in the accounts of the Rehabilitation Finance Administration.*

Sir,

I am directed to state that the Rehabilitation Finance Administration Act, 1948, does not make any specific provision for bad and doubtful debts. Section 16(4) of the Act provides that the balance sheet of the Administration should be properly drawn up so as to exhibit a true and correct state of affairs of the Administration. Since some of the loans granted by the Administration and the interest accrued thereon is likely to prove to be irrecoverable, the Government of India consider that it is necessary that adequate provision should be made for bad and doubtful debts so that the balance sheet of the Administration may exhibit the true state of affairs. The Government of India have carefully examined this question and have decided that the following formula should be adopted for the purpose of making provision for bad and doubtful debts in the balance sheet of the Administration each year:—

- (i) 50 per cent. of the total loan plus interest accrued to the end of the year should be provided in the case of loans which are recalled during the year. The question whether the Collectors have been advised or not to recover such loans as arrears of land revenue should not make any difference.
- (ii) In those cases where the Collector has been addressed during the year for the realisation of instalments due, 50 per cent. of such instalments together with interest should be provided.
- (iii) No provision need be made in respect of those loans where repayment of instalments have become overdue but the Administration has not yet found it necessary to take any penal steps towards recovery of its dues.

So far as items (i) and (ii) are concerned no further provision should be made in subsequent years in respect of recalled loans after 50 per cent. of the total amount has been provided for in the year in which a loan is recalled.

2. The above arrangements should continue for the next 5 years whereafter the percentages fixed in paragraph 1 above will be reviewed in the light of experience gained.

3. This should be treated as a directive issued under the provisions of section 19 of the Rehabilitation Finance Administration Act.

Yours faithfully,
S. K. SEN,
Deputy Secretary.

No. 10(50)-F.I/51.

Copy forwarded for information to the Controller of Commercial Audit, Office of the Comptroller and Auditor General, New Delhi.

By order etc.,
F. C. DHAUN,
Under Secretary.

APPENDIX LXXXIII

Note from the Ministry of Finance (Rehabilitation Finance Administration) pursuant to action taken on para 96 of the Fifteenth Report regarding provision for bad and doubtful debts.

The Administration have always been giving most serious consideration to the problem of bad and doubtful debts. The Government have also been seized of this question from as early as 1951. Even though the Rehabilitation Finance Administration Act, 1948, does not require any specific provision for bad and doubtful debts, Section 16(4) provides that the balance sheet of the Administration should properly be drawn up so as to exhibit a true and correct state of affairs of the Administration. A directive was accordingly issued to the Administration under Section 19 of the Act with regard to the provision for bad and doubtful debts in the accounts of the Rehabilitation Finance Administration. A copy of this directive laying down the formula for making provision for bad and doubtful debts is enclosed. It may be mentioned in this connection that this formula was informally discussed with the Comptroller and Auditor General who was represented by the Controller of Commercial Audit.

2. The Administration have pointed out that it would be futile at this stage to make any categorical forecast about bad and doubtful debts. They have lent to nearly about 13,072 loanees. Only about 1,266 cases have till now been reported to the Collectors for recovery. Excepting very few solitary cases, the Collectors have not reported that the amount is irrecoverable, though, in many cases, very small instalments have been agreed to with the loanees, in some cases the guarantors have agreed to repay the loans by reasonable instalments. In certain cases, the loans are fully covered by the compensation payable to the loanees and in almost every case, the loan is guaranteed by one or two guarantors. The Administration, therefore, feel that by giving the loanees breathing time by accepting the dues in small instalments, many loanees will be able to tide over their difficulties and will ultimately be in a position to repay the loan completely. The Administration have, therefore, reported that the formula which has been adopted in consultation with the Comptroller and Auditor General should continue to be in operation for some more time to come. The Administration have, however, decided that in future an estimate of the approximate amount of bad and doubtful debts will be made by the Chief Administrator and exhibited in the balance sheet.

3. The Administration have been devising ways and means of minimising the incidence of bad and doubtful debts. A new policy of selecting loanees from the Eastern Zone has been evolved in con-

sultation with the Ministry of Rehabilitation and the Government have issued a directive to the Corporation to the following effect:—

- (1) Other things being equal, preference should be given to applicants who have business experience or have received training in vocations and crafts;
- (2) Among the qualifying factors, the fact that the applicant was a person who had settled in a new township or place where there is concentration of displaced persons be regarded as a favourable factor for advance of loan;
- (3) Co-operative Societies be given preference for Rehabilitation Finance Administration loans.

The West Bengal Government have also offered to help the Rehabilitation Finance Administration, in "Follow up" work. This re-orientation of policy should help in minimising the incidence of bad and doubtful debts. The question of evolving a new formula for estimating the bad and doubtful debts may, therefore, wait for a period of two years, i.e. upto December, 1957, by which time there will be sufficient data available with the Administration for evolving a realistic basis in this regard.

4. As regards the steps taken to set off the debts against the compensation claim of the debtors, it may be pointed out that arrangements have already been made to safeguard the interests of the Rehabilitation Finance Administration and a suitable procedure is being evolved in consultation with the Ministries of Rehabilitation and Finance and the Accountant General Central Revenues. In this connection, a copy of the note received from the Rehabilitation Finance Administration regarding the procedure for adjustment of Rehabilitation Finance Administration loans from compensation on verified claims is enclosed.

5. This note has been vetted by audit.

M. R. BHIDE,
Joint Secretary.

APPENDIX LXXXIV

Note from the Ministry of Finance (Rehabilitation Finance Administration) pursuant to action taken on para 100 of the Fifteenth Report regarding recruitment of staff to higher posts.

A statement has been separately submitted to the Public Accounts Committee indicating action taken or proposed to be taken on the recommendations made by the Public Accounts Committee in their 15th Report on the Rehabilitation Finance Administration. It would be observed from this statement that Government have taken action on most of the recommendations made by the Committee. The Government have noted the views of the Public Accounts Committee regarding the appointment of officers in the Rehabilitation Finance Administration and the fixation of salary. In para 100 of their Report the Public Accounts Committee have themselves appreciated the situation which the Administration had to face in regard to the appointment of staff as the necessity for rehabilitating displaced persons was urgent and it was difficult to find experienced personnel. The appointments were, therefore, made in a state of emergency and irregularities in the matter of recruitment and pay fixation unfortunately were committed. The Government, however, consider that, at this stage, not much useful purpose is likely to be served by the appointment of a Committee to investigate these matters. At best, such an investigation would be in the nature of a *post-mortem* examination. Moreover, the Administration have already declared some staff surplus following the shrinkage of their activities in the Western Zone and in some cases the salaries have been reduced. Moreover these matters were discussed in the Parliament also. There seems to be hardly any necessity for examining the cases of officers who have already left the service of the Rehabilitation Finance Administration, or who are under notice of discharge, or who have been already declared surplus but not yet retrenched.

2. The Public Accounts Committee have also expressed dissatisfaction at the working of the Administration and have recommended that the proposed Committee should go into this matter and make suitable recommendations for overhauling the Administration. Since Government have already taken action on the other specific recommendations of the Committee, they consider that the appointment of a Committee to look into the past working of the Administration would not serve any useful purpose at this stage. In deference to the Public Accounts Committee's recommendation a Departmental Committee consisting of representatives of the Ministries of Finance and Rehabilitation and the Comptroller and Auditor General will be set up to look into the *present* working of the Administration and to make suitable recommendations for improving the Administration so as to enable it to discharge its functions under the Rehabilitation Finance Administration Act, 1948 more efficiently.

D. L. MAZUMDAR,
Secretary

A note was submitted to the Public Accounts Committee on the 25th May, 1956 indicating action taken on the above recommendation of the Committee. While considering the composition of the Committee it was felt that there would be no particular advantage gained by having a representative of the Ministry of Rehabilitation on this Committee and it was accordingly decided that the Committee should consist of one senior officer from the Ministry of Finance and a representative of the Comptroller and Auditor General of India.

2. The Comptroller and Auditor General of India was approached in June last to nominate one senior officer for appointment to this Committee. The terms of reference were also communicated to him and these were broadly to review the working of the Rehabilitation Finance Administration with a view to making recommendation to effect improvements in it with particular reference to the prompt disposal of loan applications and simplification of procedure for the scrutiny of applications and disbursement of loans. The Comptroller and Auditor General accordingly nominated Shri P. C. Padhi, Additional Deputy Comptroller and Auditor General and asked us to communicate in due course the name of our representative on this Committee. Shri M. R. Bhide, I.C.S., Joint Secretary, Ministry of Finance was nominated as our representative on this Committee.

3. Subsequently the Comptroller and Auditor General discussed the terms of reference of the Committee in a meeting held in his office on the 2nd August 1956 at which the following were present:—

1. The Comptroller and Auditor General of India.
2. Shri M. R. Bhide, I.C.S., Joint Secretary, Ministry of Finance.
3. Shri P. C. Das Gupta, Chief Administrator, Rehabilitation Finance Administration.
4. Shri P. C. Padhi, Additional Deputy Comptroller and Auditor General.
5. Shri P. N. Bhandari, Director of Commercial Audit.
6. Shri S. P. Mehta, Director of Co-ordination and Secretary to Comptroller and Auditor General of India.

4. During the course of the discussions, the Comptroller and Auditor General emphasised that the existing procedure in the Rehabilitation Finance Administration for dealing with loan applications was far too complicated and the labour and expenditure involved in its execution was not commensurate with the output. He, therefore, suggested that the entire question in all its aspects should be examined by the Committee. It was also suggested by him that the Committee should pose all these issues and should recommend the simplification of procedure on some national and logical basis. He further emphasised that the Committee should look also into the general question as to whether expenditure incurred on the Rehabilitation Finance Administration, the results obtained and the expected recovery of loans justified the retention of either this Organisation or the elaborate procedure prescribed.

5. The suggestions made by the Comptroller and Auditor General were very carefully examined in this Ministry and it was considered that these suggestions raised major issues of policy which are for

Government to consider. It was felt that the Committee should only go into the working of the Rehabilitation Finance Administration with a view to making recommendations to effect improvements in it particularly with reference to prompt disposal of loan applications and simplification of procedure. The Comptroller and Auditor General was accordingly informed of the views of Government in regard to the terms of the reference of the Committee. The Comptroller and Auditor General of India thereupon stated that as Government were not agreeable to his suggestions, it would be best for Audit not to get involved in what appeared to be an administrative review. He further stated that this was really a matter for the Ministry of Finance and that Audit would be content to examine in due course the result of the Finance Ministry's review and its effect on the Rehabilitation Finance Administration.

6. In accordance with the views of the Comptroller and Auditor General it has been decided to review the working of the Administration without the representative of the Comptroller and Auditor General. Shri M. R. Bhide, I.C.S., Joint Secretary, Ministry of Finance is now the sole member of the Committee. The work has been taken in hand and will be completed as early as possible.

7. This note, which has been vetted by Audit, is submitted for the information of the Public Accounts Committee.

M. R. BHIDE,
Joint Secretary

The undersigned is directed to refer to the recommendation (in para 100 of the Fifteenth Report) of the Public Accounts Committee and to say that a note was submitted to the Committee on 22nd December, 1956 regarding appointment of a Committee to review the working of the Rehabilitation Finance Administration with Shri M. R. Bhide, I.C.S., Joint Secretary, Ministry of Finance as the sole member. The following were the terms of reference of this Committee:—

“To review the working of the Rehabilitation Finance Administration with a view to making recommendations to effect improvements in it with particular reference to the prompt disposal of loan applications and simplification of procedure for the scrutiny of applications and disbursements of loans.”

A copy of the report together with the Comptroller and Auditor General's comments thereon is enclosed for the information of the Public Accounts Committee. The report has been considered by Government who have accepted the recommendation for certain delegation of power to officers of the Rehabilitation Finance Administration made in para 46 of the report. The Administration have been requested to sanction the necessary delegation and a copy of the letter to the Chief Administrator, Rehabilitation Finance Administration in this connection is enclosed.

After considering the report the Government are satisfied that the Rehabilitation Finance Administration has been steadily improving its procedure for dealing with loan applications in the light of the experience it has been gaining. As the Public Accounts Committee are aware, a sub-committee was appointed by the Administration to go into the question of the procedure with a view to ensure expeditious disposal of references and this sub-committee had come to the conclusion that the procedure could not be simplified further without affecting the efficient functioning of the Administration. The report of this Committee is contained in Appendix A of the Bhide Committee's Report. This sub-committee included a senior officer of the Finance Ministry who is at present the Secretary of the Expenditure Department, Ministry of Finance.

This note has been vetted by audit.

H. M. PATEL,
Principal Secretary.

5-9-57.

No. F. 7(41)-Crop/56.

GOVERNMENT OF INDIA

Ministry of Finance

DEPARTMENT OF ECONOMIC AFFAIRS

New Delhi, the 20th August, 1957.

From

Shri S. S. Sharma,
Under Secretary to the Government of India.

To

The Chief Administrator,
Rehabilitation Finance Administration,
NEW DELHI.

Sir,

I am directed to forward herewith a copy of the Report of the Bhide Committee appointed by the Government of India in pursuance of recommendation No. 73(ii) made by the Public Accounts Committee in its 15th Report (1954-55) to review the working of the Rehabilitation Finance Administration. The Report has been carefully considered by Government. The Government of India agree with the suggestion made in Para 46 of the report that to facilitate the expeditious disposal of loan applications, some powers should be delegated to the Chief Administrator and Deputy Chief Administrator. They accordingly suggest that the Administration be moved to make the following delegation under Section 22 of the Rehabilitation Finance Administration Act, 1948.

(a) *Chief Administrator*.—Powers of sanction or rejection of all loan applications upto Rs. 10,000.

(b) *Deputy Chief Administrator*.—Powers of sanction or rejection of all loan applications upto Rs. 5,000.

NOTE:—Appeals against rejections by Deputy Chief Administrator would lie with the Chief Administrator and against those by Chief Administrator with the Administration.

Yours faithfully,

S. S. SHARMA,

Under Secretary.

APPENDIX LXXXV

Note from the Ministry of Finance (Industrial Finance Corporation) pursuant to action taken on para 106 of the Fifteenth Report regarding reference of cases to the Ministry of Commerce and Industry.

This Committee cannot accept that merely because for facility of management the Corporation has been set up as a separate legal entity with certain legal powers, it should be permissible for the Corporation to disregard or flout the advice given by the Ministry of Commerce and Industry which is charged with the public responsibility for promoting the industrial development of the country. The notion that the Corporation's transactions can be managed solely according to ordinary practices of private banks cannot also be supported.

The above recommendation has been noted.

2. Details of the three cases in respect of which the Corporation is stated to have given loans contrary to the recommendations of the Ministry of Commerce and Industry are given below:—

Punjab Vanaspati and Oil Mills Limited

Before sanctioning a loan of Rs. 1,75,000 to this Company, the application was referred to Dr. J. C. Ghosh, the then Director General of Industry and Supply, who advised the Corporation that there was no dearth of private capital for the oil milling industry. Dr. Ghosh who was a Director of the Corporation attended the Board meeting held on the 18th July, 1949 when the Company's application was considered. He raised a point that this was a small and non-essential concern and the Provincial Government should be responsible for assistance to this industry. It was explained to the Board that the Company were going to produce vegetable oil and not vanaspati, and that the factory was situated in a large oil consuming centre which was also an oil seed producing area and that the Company could not complete the scheme without financial assistance from the Corporation. It was further explained that as the local Government had not set up a State Financial Corporation, this Corporation could not neglect the small industries until such a Corporation was set up in the State. The loan was sanctioned by unanimous vote of the Board of Directors and it is, therefore, obvious that the Directors including Dr. Ghose were satisfied with the explanations offered in regard to the objection raised by Dr. Ghosh.

Hindustan National Glass Manufacturing Co. Ltd.

The application of this company for a loan of Rs. 14,00,000 was referred to the Ministry of Commerce & Industry on the 26th October, 1950, but no reply was received till the meeting of the late Executive Committee held on the 6th January, 1951 when it was decided to obtain the opinion of Dr. Atma Ram, Joint Director of the Central Glass and Ceramic Research Institute, Calcutta.

The Ministry's letter in reply to the earlier reference was received on the 23rd January, 1951 and therein the Ministry stated *inter alia* that the project seemed to be still in the planning stage, as the Company had not started either the construction of the factory or the erection of the furnace; and, therefore, they were unable to recommend the firm's request for financial assistance.

Dr. Atma Ram submitted his report on 23rd June, 1951 and the gist of his report is given below:

"The construction of the main buildings has already started. The plant ordered by the company, if efficiently organised and worked to full capacity, should be able to produce quality goods provided proper raw materials are used. There is not likely to be any difficulty in marketing the goods if they are of good quality and are produced at a reasonable cost. The factory is favourably located in regard to the nearness of market and there is not likely to be any difficulty in getting the supplies of raw materials."

It will be observed that the scheme had taken shape when Dr. Atma Ram made his report several months after the receipt of the Ministry's letter. Dr. Atma Ram, in his report, had exhaustively dealt with the scheme of the Company and the possibility of marketing their products. Therefore, a fresh reference to the Ministry was not considered necessary and the loan was sanctioned by the late Executive Committee at their meeting held on the 25th August, 1951.

It will be observed that the Ministry were not able to recommend the loan in January, 1951 as the project of the Company was then in a planning stage. The Ministry had not recommended a total ban on the sanction of a loan to the Company in the future. At the time of the sanction of the loan, the Corporation had the opinion of a Government Expert, even though technically of a subordinate office of the Ministry.

Ceramic Products Limited

The Company's application for a loan of Rs. 3 lakhs was referred to the Ministry of Commerce and Industry on the 6th April, 1953 to advise the Corporation about the prospects and feasibility of the scheme. The Ministry's reply was received on 11th May, 1953. The relevant extracts are reproduced below:—

"So far as stoneware pipes are concerned their factory came into production only recently (May 1952) and they have not been able to produce more than 20 per cent. of their installed capacity. We have no definite information on the quality of their products but from a sample sent to us some time back it seems that the quality was generally poor. There is no denying the fact that there is a considerable demand of sanitaryware pipes in the country and there is no factory within 400 to 500 miles of the Khanapur factory. Further, principal raw materials are available near Khanapur and there are reasonable chances of the firm finding a market in the adjoining area. The proposed expansion, can, therefore, be justified on

regional considerations. The performance of Messrs. Ceramics Products Ltd., however, has not been such as would justify the grant of a loan asked for by them."

"It may be added that the firm have not yet applied for substantial expansion as required under the Industries (Development and Regulation) Act, 1951 since Ceramics is a scheduled industry under the Act. It will be necessary for them to obtain Government permission before effecting substantial expansion in this regard."

The Corporation communicated to the Company on 3rd June, 1953 the above observations of the Ministry. The Company, by their letter dated 10th June, 1953 to the Corporation replied to the various points raised by the Ministry and also sent direct to the Ministry fresh samples of their products. On 17th June, 1953 the Corporation sent a copy of the Company's letter and requested the Ministry to forward their views after they had considered the explanations offered by the Company and examined the fresh samples submitted by them.

The Ministry *vide* their letter dated 25th August, 1953 observed as follows:—

The demand for sewage pipes has considerably increased since 1951. As there is no other factory within 400/500 miles of the Khanapur factory for manufacturing stoneware pipes, the Licensing Committee came to the conclusion that the proposed expansion was justified.

The Scheme was also examined by the Development Wing of this Ministry and they also supported the grant of the licence.

The late Executive Committee at their meeting held on the 19th September, 1953 considered the application of the Company as also the earlier observations of the Ministry of Commerce and Industry as well as the further action taken by the Company on the said observations. They also noted that the Licensing Committee of the Ministry had justified the proposed expansion scheme of the Company and that the Development Wing, after having examined the scheme, had also supported the grant of a licence to the Company. It was also explained to the Committee that the Company possessed adequate technical staff, that the factory was favourably situated with regard to the availability of the principal raw materials and that, with the introduction of drainage system in about 20 cities and towns in Bombay State within a radius of 200 miles of the factory, they would be assured of a market for their stoneware pipes, which would otherwise have to be imported from distant centres after incurring prohibitive transport charges. The Committee after deliberation sanctioned the loan of Rs. 3 lakhs to the Company.

The sanction of the loan came up before the Board of Directors of the Corporation at their meeting held on the 21st November, 1953 when they decided that the sanction of the loan to the Company should be reconsidered by the Executive Committee for the reason that the Ministry of Commerce and Industry had stated that the

products of the Company were of poor quality. The Executive Committee accordingly reconsidered the matter on the same day and decided that the sanction of the loan to the Company should be withdrawn.

On 5th December, 1953, the Ministry advised the Corporation that the samples sent by the Company in June showed some improvement, but it would not make any difference in the opinion expressed by them in their earlier letter about the quality of the company's products.

The matter was again considered by the late Executive Committee at their meeting held on the 26th December, 1953 when it was explained that

- (1) the company were favourably situated with regard to accessibility to raw materials, nearness to markets etc.
- (2) the company possessed experienced technical personnel, besides being well managed.
- (3) the company had applied for the loan to improve the quality of their products (stone-ware pipes and refractories) by installing additional machinery, the cost of which was to be met from the loan applied for.
- (4) with reference to the report of the Ministry of Commerce and Industry that the Company's products were of poor quality, the Company had stated that the stone-ware pipes, when tested at the Government Central Workshop at Dapoli, Poona, conformed to the minimum standard specifications and that they were, however, getting the pipes tested at the Central Glass and Ceramic Research Institute, Calcutta.
- (5) in the matter of refractories, the Company had stated that they were tested recently at the Government Test House, Alipore, Calcutta, and found to be satisfactory.
- (6) the Ministry of Commerce and Industry have justified the expansion scheme on regional considerations.
- (7) the Directors of the Company, who were persons of business standing, were prepared to guarantee the loan in their personal capacity.

Shri S. Bhoothalingam who was then a Director of the Corporation and Member of the Executive Committee informed the Committee that in the opinion of the Ministry of Commerce and Industry, the quality of the products as revealed by the samples submitted by the Company showed improvement, though it was not entirely satisfactory.

The late Executive Committee after considering all the aspects of the case sanctioned a loan of Rs. 3 lakhs to the Company. The sanction of the loan was thereafter reported to the Board of Directors of the Corporation at their meeting held on the 14th February, 1954 at which Shri Bhoothalingam was also present.

This note has also been vetted by Audit.

M. R. BHIDE,
Joint Secretary.

APPENDIX LXXXVI

Memorandum from the Ministry of Finance pursuant to action taken on para 49 of the Fifteenth Report regarding warranty clause in contracts (Loss on purchase of condensed milk).

No. F. 14(11)-E.II(A)/56

New Delhi, the 30th August, 1956.

An instance has been brought to notice *vide* the Fifteenth Report of the Public Accounts Committee, where, in the absence of a Warranty clause in a contract executed by a Ministry for the purchase of a perishable store, like condensed milk, a loss due to deterioration of the stuff after receipt had to be borne by Government. In this case, the article had not been inspected immediately or within a reasonable time of its receipt, at destination, as contemplated in Rule 3 of the Rules prescribed for the supply of Articles required for public service (Appendix 9 of General Financial Rules, Vol. II). Apart from providing in the contract a clause fulfilling this requirement contemplated in Rule 3 referred to above, it must be ensured, in the case of perishable stores, that a separate warranty clause is also invariably provided on the lines indicated in a specimen form of warranty clause enclosed herewith.

2. To ensure effective use of this clause, it is essential that the Ministries, etc. should arrange not only for prompt inspection of the consignments of stores immediately on their receipt from the suppliers but also for subsequent test checks at suitable intervals within the period covered by the warranty clause. The Ministries of Food and Agriculture etc. are requested to issue necessary instructions to this effect to their subordinate administrative authorities also.

P. K. GANAPATHI,
Under Secretary.

To

The Ministries of the Government of India, Cabinet Secretariat (with a spare copy for the O. & M. Division), Prime Ministers' Secretariat, Partition Secretariat, Department of Parliamentary Affairs, Department of Atomic Energy, Lok Sabha Secretariat, Rajya Sabha Secretariat, Secretary and Military Secretary to the President, Planning Commission, Community Project Administration, Supreme Court, and Vice President's Secretariat.

(Model form of Warranty Clause)

The contractor/seller hereby declares that the goods/stores/articles sold to the buyer under this contract shall be of the best quality (and workmanship) and shall be strictly in accordance with

the specifications and particulars contained/mentioned in the clause—— hereof and the contractor/seller hereby guarantees that the said goods/stores/articles would continue to conform to the description and quality aforesaid for a period of—— days/months from the date of delivery of the said goods/stores/articles to the Purchaser and that notwithstanding the fact that the Purchaser (Inspector) may have inspected and/or approved the said goods/stores/articles, if during the aforesaid period of———days/months the said goods/stores/articles be discovered not to conform to the description and quality aforesaid or have deteriorated (and the decision of the Purchaser in that behalf will be final and conclusive) the Purchaser will be entitled to reject the said goods/stores/articles or such portion thereof as may be discovered not to conform to the said description and quality. On such rejection the goods/stores/articles will be at the seller's risk and all the provisions herein contained relating to rejection of goods etc. shall apply. The contractor/seller shall, if so called upon to do, replace the goods etc. or such portion thereof as is rejected by the Purchaser otherwise the contractor/seller shall pay to the Purchaser such damages as may arise by reason of the breach of the condition herein contained. Nothing herein contained shall prejudice any other right of the Purchaser in that behalf under this contract or otherwise.

APPENDIX LXXXVII

Note from the Ministry of Food and Agriculture (Department of Agriculture) pursuant to action taken on para. 54 of the Fifteenth Report regarding Reserve Pool of Fertilisers.

Out of claims amounting to Rs. 2,71,583 it has been decided to write off a further sum of Rs. 1,37,800 as irrecoverable, thus the amount of claims under correspondence has been reduced to Rs. 1,33,783.

The following additional information is furnished as approved by the Chief Audit Officer, (F.R. & S.).

M/s. Nanavati & Co. Ltd., former Clearing and Forwarding Agents at Bombay since reported that 20 tons which was previously reported as shortage, have subsequently been found to have been supplied to the *Government of Bombay* who have also confirmed receipt of the material and have paid for it. The shortage is thus reduced to Rs. 4,95,330. The latest position of the shortage is as under:—

1. (a) Amount recovered and adjusted.	.. Rs. 87,974
(b) Amount recovered but refunded.	.. Rs. 18,574
2. Claims pending settlement (<i>matter under arbitration</i>)	.. Rs. 1,33,783
3. Claims written off as irrecoverable.	.. Rs. 2,54,999
	Rs. 4,95,330

In connection with the refund of amount of Rs. 18,574 shown above against 1(b), it is stated that a sum of Rs. 51,777 being the amount of godown shortages of tons 178 was previously recovered from M/s. Nanavati from their pending bills. M/s. Nanavati represented against this recovery and sought arbitration under the terms of the contract.

The matter was thereupon discussed in meeting of the representative of the firm and Law, Finance and Food and Agriculture Ministries. After considering all aspects of the case it was decided to absolve the firm of the shortage to the extent of 65 tons out of the shortage of 178 tons for the reasons that the shortage had occurred over a long period of storage and that part of the shortage could be attributed to:—

- (i) The use of hooks by the Port Trust labour at the time of unloading,

- (ii) Spillage in the process of removal to the godowns from docks, and
- (iii) Rebagging.

This decision was reached in order to avoid the trouble and expense involved in referring the matter to arbitration and as a compromise to settle the outstanding claims pending over a number of years.

Regarding item (2), namely claims pending amounting to Rs. 1,33,784, the case is under arbitration. The next hearing of the arbitration court is fixed on 22nd September, 1957 provisionally.

T. C. PURI,
Joint Secretary.

18-9-57.

APPENDIX LXXXVIII

Note from the Ministry of Works, Housing and Supply pursuant to action taken on para. 13(a) of the Fifteenth Report regarding Budgeting and Control over Expenditure.

Since the creation of the Budget Cell in this Ministry, there has been marked improvement in the control of expenditure resulting in a significant decrease in regard to uncovered excesses and unsundered savings. In regard to provision made for works expenditure, unsundered savings could not altogether be eliminated on account of the very nature of works which involve acquisition of land, purchase of stores, procurement of materials such as steel and cement etc. Wherever it has been reliably understood that provision made in the budget could not be utilised on account of the factors mentioned above, prompt action has been taken for its surrender in due time. This arrangement has been made possible by keeping a close watch over progress of (i) expenditure (ii) issue of sanctions (iii) fulfilment of Codal requirements etc. through suitable records kept in the Cell. It is hoped that before long it would be possible to make substantial improvements in this regard.

The following table gives a picture in regard to the unsundered amounts in the Civil Works Grant before and after the formation of the Budget Cell:

	Budget Estimates	Final Grant	Savings sundered	Savings Un-sundered
	Rs.	Rs.	Rs.	Rs.
I—Works Expenditure During 1951-52 and 1952-53.				
1951-52	13,44,83,288	13,01,94,388	42,88,900	2,74,88,130*
1952-53	16,39,93,000	14,54,09,100	1,85,83,900	2,99,79,890
II—Works Expenditure after 1952-53 (i.e. subsequent to the taking over the work in the Budget Cell.)				
1953-54	26,83,42,000	23,16,75,100	3,66,66,900	1,91,99,084
1954-55	33,85,87,000	27,26,81,248	6,59,05,752	9,62,285

*Out of this 1,13,86,500 was surrendered but not accepted.

APPENDIX XC

Note from the Ministry of Works, Housing and Supply pursuant to action taken on para. 102 of the Sixteenth Report regarding nugatory expenditure on the construction of the pre-fabricated Housing Factory.

No. ENT.10(15)/57.

New Delhi, dated the 29th May, 1957.

In para. 102 of their Sixteenth Report, the Public Accounts Committee had decided to defer further consideration of the case relating to the Housing Factory till (i) the Expert Committee had submitted its report and (ii) the final settlement with the firm (Messrs. Basakha Singh Wallenborg Limited) had been reported on by the Comptroller and Auditor General of India.

2. As regards (i), it has been decided by the Government of India on the 16th April, 1957 that the Hindustan Housing Factory should continue to be run by Government as an entirely State-owned private limited company with the Authorised Capital of Rs. 75 lakhs and "paid-up" capital of Rs. 40 lakhs. It has also been decided that the Government should implement the various detailed recommendations made in the Report, by the Committee of Experts which was set up to determine the future of the Hindustan Housing Factory. A copy of the Report of the Committee of Experts is enclosed.

3. Regarding (ii) the Comptroller and Auditor General will, no doubt, submit his report on the Government's final settlement with Messrs. Basakha Singh Wallenborg Limited direct to the Public Accounts Committee.

K. S. KRISHNASWAMI,

Joint Secretary

APPENDIX XCI

Note from the Ministry of Works, Housing and Supply pursuant to action taken on para 122 of the Sixteenth Report regarding Road Rollers bulk procurement scheme.

The present position of the case is as under:—

The cost Report on Steam Road Rollers as submitted by the Government Cost Accounts Officer has since been fully examined. In terms of such examination costs relating to expenditure on the Co-ordinating Cell and on imported components with which the firm is concerned, have been finalised. Such finalisation was effected after acceptance by the firm of certain disallowances and reductions proposed by Government in respect of various items of expenses of the Co-ordinating Cell and submission of Auditors certificate by the firm regarding reasonableness of the prices charged by them for imported components.

With regard to finalisation of the costs of the second firm in his report the C.C.A.O. had excluded certain items from the computation of costs as being inadmissible apparently in terms of the contract whilst on some other items the C.C.A.O. had recommended substantial reduction of the firm's claims. In doing so, he (C.C.A.O.) recommended that a final decision on these items should be taken by the D.G.S. & D. in consultation with Finance. As most of these items were of a controversial nature these could only be settled by discussion with the firm. A meeting was, accordingly, held on 7th November, 1956 with this firm in association with Finance and C.C.A.O. to settle the various points so that final decisions could be taken on the finalisation of these issues. As a result of this meeting, some of the cases have been finalised. Others are still outstanding.

One of the major items, on which decision is yet to be taken, is the cost of Ordnance Factories components (which represents about 45 per cent. of cost of the rollers). On this issue the C.C.A.O. had observed that the rate originally fixed for these components should be revised and refixed as certain components valued at about Rs. 37 lakhs which were originally included in the list of components to be manufactured by the ordnance factories were not supplied by them and these had therefore to be obtained from other sources. The D.G.O.F. has not so far accepted this view. A meeting has been proposed to be held shortly with the Ministry of Defence to expedite settlement of this matter.

The recoveries based on the provisional price of Steam Road Rollers and shown as outstanding in the previous Note furnished to the Public Accounts Committee by this Ministry on the 19th

March, 1956, have been made except for an amount of Rs. 9,650/- (excluding Rs. 12/8/- on account of departmental charges, which are also recoverable) from the Cantonment Board, Meerut. The Ministry of Defence with whom the matter was taken up, have stated that the accounts will be settled after the price is finalised.

As the contract is of a complicated nature and there are various parties to the contract with whom costs have to be settled before the final price can be determined, the finalisation of this case has been somewhat delayed. However, efforts are being made to finalise the price as early as possible.

M. R. SACHDEV,
Secretary.

8-8-57.

